HUNTINGTON BANCSHARES INC/MD
Form 10-Q
October 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
QUARTERLY PERIOD ENDED September 30, 2015
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.)

41 South High Street, Columbus, Ohio 43287
Registrant’s telephone number (614) 480-8300
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No
There were 796,659,440 shares of Registrant’s common stock ($0.01 par value) outstanding on September 30, 2015 .

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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:

ABL	Asset Based Lending
ACL	Allowance for Credit Losses
AFCRE	Automobile Finance and Commercial Real Estate
AFS	Available-for-Sale
ALCO	Asset-Liability Management Committee
ALLL	Allowance for Loan and Lease Losses
ARM	Adjustable Rate Mortgage
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated Teller Machine
AULC	Allowance for Unfunded Loan Commitments
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
Camco Financial	Camco Financial Corp.
CCAR	Comprehensive Capital Analysis and Review
CDO	Collateralized Debt Obligations
CDs	Certificate of Deposit
CET1	Common equity tier 1 on a transitional Basel III basis
CFPB	Bureau of Consumer Financial Protection
CFTC	Commodity Futures Trading Commission
CMO	Collateralized Mortgage Obligations
CRE	Commercial Real Estate

Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DTA/DTL	Deferred Tax Asset/Deferred Tax Liability
EFT	Electronic Fund Transfer
EPS	Earnings Per Share
EVE	Economic Value of Equity
FASB	Financial Accounting Standards Board
Fannie Mae	(see FNMA)
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	Fair Isaac Corporation

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FNMA	Federal National Mortgage Association
FRB	Federal Reserve Bank
Freddie Mac	(see FHLMC)
FTE	Fully-Taxable Equivalent
FTP	Funds Transfer Pricing
GAAP	Generally Accepted Accounting Principles in the United States of America
GNMA	Government National Mortgage Association, or Ginnie Mae
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HIP	Huntington Investment and Tax Savings Plan
HQLA	High Quality Liquid Asset
HTM	Held-to-Maturity
IRS	Internal Revenue Service
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
LGD	Loss-Given-Default
LIHTC	Low Income Housing Tax Credit
LTV	Loan to Value
Macquarie	Macquarie Equipment Finance, Inc. (U.S. operations)
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MSA	Metropolitan Statistical Area
MSR	Mortgage Servicing Rights
NAICS	North American Industry Classification System
NALs	Nonaccrual Loans
NII	Net Interest Income

NIM	Net Interest Margin
NCO	Net Charge-off
NPA	Nonperforming Asset
N.R.	Not relevant. Denominator of calculation is a gain in the current period compared with a loss in the prior period, or vice-versa
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
Plan	Huntington Bancshares Retirement Plan
Problem Loans	Includes nonaccrual loans and leases (Table 15), troubled debt restructured loans (Table 16), accruing loans and leases past due 90 days or more (aging analysis section of Footnote 3), and Criticized commercial loans (credit quality indicators section of Footnote 3).

RBHPCG	Regional Banking and The Huntington Private Client Group
RCSA	Risk and Control Self-Assessments
REIT	Real Estate Investment Trust
ROC	Risk Oversight Committee
RWA	Risk-Weighted Assets
SAD	Special Assets Division
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SRIP	Supplemental Retirement Income Plan
SSFA	Simplified Supervisory Formula Approach
TCE	Tangible Common Equity
TDR	Troubled Debt Restructured Loan
TRUPS	Trust Preferred Securities
U.S. Treasury	U.S. Department of the Treasury
UCS	Uniform Classification System
UDAP	Unfair or Deceptive Acts or Practices
UPB	Unpaid Principal Balance
USDA	U.S. Department of Agriculture
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” 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 149 years of servicing the financial needs of our customers. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, equipment leasing, investment management, trust services, brokerage services, insurance service programs, and other financial products and services. Our 756 branches are located in Ohio, Michigan, Pennsylvania, Indiana, West Virginia, and Kentucky. Selected financial services and other activities are also conducted in various other states. International banking services are available through the headquarters office in Columbus, Ohio and a limited purpose office located in the Cayman Islands and another limited purpose office located in Hong Kong. Our foreign banking activities, in total or with any individual country, are not significant.

This MD&A provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. The MD&A included in our 2014 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2014 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.

Our discussion is divided into key segments:

- Executive Overview—Provides a summary of our current financial performance and business overview, including our thoughts on the impact of the economy, legislative and regulatory initiatives, and recent industry developments. This section also provides our outlook regarding our expectations for 2015 fourth quarter.
- Discussion of Results of Operations—Reviews financial performance from a consolidated Company perspective. It also includes a Significant Items section that summarizes key issues helpful for understanding performance trends. Key consolidated average balance sheet and income statement trends are also discussed in this section.
- Risk Management and Capital—Discusses credit, market, liquidity, operational, and compliance risks, including how these are managed, as well as performance trends. It also includes a discussion of liquidity policies, how we obtain funding, and related performance. In addition, there is a discussion of guarantees and / or commitments made for items such as standby letters of credit and commitments to sell loans, and a discussion that reviews the adequacy of capital, including regulatory capital requirements.
- Business Segment Discussion—Provides an overview of financial performance for each of our major business segments and provides additional discussion of trends underlying consolidated financial performance.
- Additional Disclosures—Provides comments on important matters including forward-looking statements, critical accounting policies and use of significant estimates, and recent accounting pronouncements and developments.

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

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EXECUTIVE OVERVIEW

Summary of 2015 Third Quarter Results Compared to 2014 Third Quarter

For the quarter, we reported net income of $152.6 million, or $0.18 per common share, compared with $155.0 million, or $0.18 per common share, in the year-ago quarter (see Table 1).

Fully-taxable equivalent net interest income was $503.6 million, up $29.8 million, or 6%. The results reflected the benefit from a $4.6 billion, or 8%, increase in average earning assets, partially offset by a 4 basis point reduction in the net interest margin to 3.16%. Average earning asset growth included a $2.9 billion, or 6%, increase in average loans and leases and a $1.6 billion, or 13%, increase in average securities. The net interest margin contraction reflected a 2 basis point decrease related to the mix and yield of earning assets and a 6 basis point increase in funding costs, partially offset by a 4 basis point increase in the benefit from noninterest-bearing funds.

The provision for credit losses was $22.5 million, down $2.0 million, or 8%. Net charge-offs decreased $13.9 million, or 46%, to $16.2 million. NCOs represented an annualized 0.13% of average loans and leases in the current quarter, down from 0.26%. Current quarter results were positively impacted by several recoveries in the C&I and CRE portfolios, as a result of successful workout strategies. We continue to be pleased with the net charge-off performance across the entire portfolio, as consumer charge-offs remain within our expected range. Overall consumer credit metrics continue to show an improving trend while the commercial portfolios continue to experience some quarter-to-quarter volatility based on the absolute low level of problem loans.

Noninterest income was $253.1 million, up $5.8 million, or 2%. This reflected an increase in other income of $10.0 million, or 33%, primarily due to equipment operating lease income earned by Huntington Technology Finance. In addition, service charges on deposit accounts increased $6.0 million, or 9%, reflecting the benefit of continued new customer acquisition. Electronic banking increased $3.6 million, or 13%, due to higher card related income and underlying customer growth. These increases were partially offset by a decrease in mortgage banking income of $6.1 million, or 24%, including a decrease from net MSR hedging-related activities, and a decrease in trust services of $3.1 million, or 11%.

Noninterest expense was $526.5 million, up $46.2 million, or 10%. This reflected an increase in other expense of $42.3 million, or 107%, primarily due to the $38.2 million increase to litigation reserves, as well as $5.5 million related to Huntington Technology Finance operating lease expense. In addition, personnel costs increased $10.9 million, or 4%, reflecting a $24.2 million increase in salaries related to both annual merit increases and a 4% increase in the number of average full-time equivalent employees, partially offset by the $12.5 million change in Significant Items. Also, outside data processing increased $5.5 million, or 10%, primarily related to technology investments. These increases were partially offset by a decrease in amortization expense of $5.9 million, or 60%, reflecting the full amortization of the core deposit intangible from the Sky Financial acquisition and a decrease in net occupancy costs of $5.3 million, or 16%, reflecting Significant Items in the year ago quarter related to franchise repositioning actions.

The tangible common equity to tangible assets ratio was 7.89% at September 30, 2015, down 46 basis points. On a Basel III basis, the CET1 risk-based capital ratio was 9.72% at September 30, 2015, and the regulatory tier 1 risk-based capital ratio was 10.49%. All capital ratios were impacted by the repurchase of 24.2 million common shares over the last four quarters. On a Basel I basis, the tier 1 common risk-based capital ratio was 10.31% at September 30, 2014, and the regulatory tier 1 risk-based capital ratio was 11.61%.

Business Overview

General

Our general business objectives are: (1) grow net interest income and fee income, (2) deliver positive operating leverage, (3) increase primary relationships across all business segments, (4) continue to strengthen risk management and reduce volatility and (5) maintain strong capital and liquidity positions.

Our fundamentals remain solid as a result of our strategic investments, innovative products, and improved sales management and productivity. The quarter was in line with our expectations. We remained disciplined in lending, and we continued to experience strong average core deposit growth in the quarter. Our focus on growing noninterest bearing checking accounts from both consumers and businesses and cross-selling other products is working.

We drove year-over-year revenue growth through ongoing focus on our net interest margin and notable loan growth primarily within equipment finance and auto finance. We have also carefully managed expenses within the current revenue environment, while materially investing in the business.

Economy

Since the economic recovery began in 2008, economic activity in the key footprint states of Ohio, Michigan, and Indiana, which account for approximately 90% of our business as measured by deposits, has grown faster than the national average. This outperformance has persisted through the past three months and, based on the Philadelphia Federal Reserve Bank's state leading indices, is expected to continue for the next six months.

Unemployment rates in most of our footprint states continue to trend positively, and most are in line with or better than the national average. The one outlier is the state of West Virginia, which continues to struggle with the impact of lower coal prices. The current and year-ago unemployment rates for our ten largest deposit markets, which account for more than 80% of our total deposit franchise, continue to trend favorably.

Legislative and Regulatory

Regulatory reforms continue to be adopted, including the 2015 first quarter implementation of the Basel III regulatory capital requirements.

Basel III Regulatory Capital Requirements—In 2013, the Federal Reserve voted to adopt final capital rules implementing Basel III requirements for U.S. Banking organizations, which were effective for us beginning January 1, 2015. The final rules establish an integrated regulatory capital framework and implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. Consistent with the international Basel framework, the final rule includes a new regulatory minimum ratio of common equity tier 1 capital to risk-weighted assets. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets and includes a minimum leverage ratio of 4%. The Basel III capital rules establish two methodologies for calculating risk-weighted assets, the advanced and standardized approaches. We are subject to the standardized approach for calculating risk-weighted assets. The implementation of the Basel III capital requirements is transitional and phases-in through the end of 2018.

Conforming Covered Activities to Implement the Volcker Rule—On December 10, 2013, the Federal Reserve, the OCC, the FDIC, the CFTC and the SEC issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank Act, and established July 21, 2015, as the end of the conformance period. The Volcker Rule prohibits an insured depository institution and any company that controls an insured depository institution (such as a bank holding company), and any of their subsidiaries and affiliates (referred to as “banking entities”) from: (i) engaging in “proprietary trading” and (ii) investing in or sponsoring certain types of funds (“covered funds”) subject to certain limited exceptions. These prohibitions impact the ability of U.S. banking entities to provide investment management products and services that are competitive with nonbanking firms generally and with non-U.S. banking organizations in overseas markets. The rule also effectively prohibits short-term trading strategies by any U.S. banking entity if those strategies involve instruments other than those specifically permitted for trading. Because the Company has over $50 billion in assets, it is subject to Volcker enhanced compliance requirements. As such the company has completed Volcker Rule due diligence, built its compliance program, and implemented training and on-going reporting requirements. Huntington believes it has achieved required conformance and will deliver the required attestation on or before March 31, 2016.

Expectations – 2015

We remain committed to delivering positive operating leverage for the full year. We anticipate that modest performance improvement within the fourth quarter will contribute to positive operating leverage. We will remain highly disciplined with expense management to achieve our goal.

The commitment to positive operating leverage for full-year 2015, excluding Significant Items and net MSR activity, is both inclusive and exclusive of the impact of Huntington Technology Finance. We continue to expect noninterest expense growth of 2% to 4% for the year, excluding Significant Items and the recurring expense related to Huntington Technology Finance. We expect 2015 fourth quarter noninterest expense, excluding Significant Items, will remain consistent with the 2015 second and third quarters' adjusted noninterest expense levels.

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

The effective tax rate for the remainder of 2015 is expected to be in the range of 24% to 27%.

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DISCUSSION OF RESULTS OF OPERATIONS

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

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

	Three months ended September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Interest income	$538,477	$529,795	$502,096	$507,625	$501,060
Interest expense	43,022	39,109	34,411	34,373	34,725
Net interest income	495,455	490,686	467,685	473,252	466,335
Provision for credit losses	22,476	20,419	20,591	2,494	24,480
Net interest income after provision for credit losses	472,979	470,267	447,094	470,758	441,855
Service charges on deposit accounts	75,157	70,118	62,220	67,408	69,118
Trust services	24,972	26,550	29,039	28,781	28,045
Electronic banking	30,832	30,259	27,398	27,993	27,275
Mortgage banking income	18,956	38,518	22,961	14,030	25,051
Brokerage income	15,059	15,184	15,500	16,050	17,155
Insurance income	16,204	17,637	15,895	16,252	16,729
Bank owned life insurance income	12,719	13,215	13,025	14,988	14,888
Capital markets fees	12,741	13,192	13,905	13,791	10,246
Gain on sale of loans	5,873	12,453	4,589	5,408	8,199
Securities gains (losses)	188	82	—	(104)	198
Other income	40,418	44,565	27,091	28,681	30,445
Total noninterest income	253,119	281,773	231,623	233,278	247,349
Personnel costs	286,270	282,135	264,916	263,289	275,409
Outside data processing and other services	58,535	58,508	50,535	53,685	53,073
Net occupancy	29,061	28,861	31,020	31,565	34,405
Equipment	31,303	31,694	30,249	31,981	30,183
Professional services	11,961	12,593	12,727	15,665	13,763
Marketing	12,179	15,024	12,975	12,466	12,576
Deposit and other insurance expense	11,550	11,787	10,167	13,099	11,628
Amortization of intangibles	3,913	9,960	10,206	10,653	9,813
Other expense	81,736	41,215	36,062	50,868	39,468
Total noninterest expense	526,508	491,777	458,857	483,271	480,318
Income before income taxes	199,590	260,263	219,860	220,765	208,886
Provision for income taxes	47,002	64,057	54,006	57,151	53,870
Net income	152,588	196,206	165,854	163,614	155,016
Dividends on preferred shares	7,968	7,968	7,965	7,963	7,964
Net income applicable to common shares	$144,620	$188,238	$157,889	$155,651	$147,052
Average common shares—basic	800,883	806,891	809,778	811,967	816,497
Average common shares—diluted	814,326	820,238	823,809	825,338	829,623
Net income per common share—basic	$0.18	$0.23	$0.19	$0.19	$0.18
	0.18	0.23	0.19	0.19	0.18

Net income per common share—diluted										
Cash dividends declared per common share	0.06		0.06		0.06		0.06		0.05	
Return on average total assets	0.87	%	1.16	%	1.02	%	1.00	%	0.97	%
Return on average common shareholders' equity	9.3		12.3		10.6		10.3		9.9	
Return on average tangible common shareholders' equity (2)	10.7		14.4		12.2		11.9		11.4	
Net interest margin (3)	3.16		3.20		3.15		3.18		3.20	
Efficiency ratio (4)	69.1		61.7		63.5		66.2		65.3	
Effective tax rate	23.5		24.6		24.6		25.9		25.8	
Revenue—FTE										
Net interest income	$495,455		$490,686		$467,685		$473,252		$466,335	
FTE adjustment	8,168		7,962		7,560		7,522		7,506	

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Net interest income (3)	503,623	498,648	475,245	480,774	473,841
Noninterest income	253,119	281,773	231,623	233,278	247,349
Total revenue (3)	$756,742	$780,421	$706,868	$714,052	$721,190

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

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

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

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

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Table 2 - Selected Year to Date Income Statement Data (1)
(dollar amounts in thousands, except per share amounts)

	Nine Months Ended September 30,		Change	
	2015	2014	Amount	Percent
Interest income	$1,570,368	$1,468,837	$101,531	7 %
Interest expense	116,542	104,948	11,594	11
Net interest income	1,453,826	1,363,889	89,937	7
Provision for credit losses	63,486	78,495	(15,009)	(19)
Net interest income after provision for credit losses	1,390,340	1,285,394	104,946	8
Service charges on deposit accounts	207,495	206,333	1,162	1
Trust services	80,561	87,191	(6,630)	(8)
Electronic banking	88,489	77,408	11,081	14
Mortgage banking income	80,435	70,857	9,578	14
Brokerage income	45,743	52,227	(6,484)	(12)
Insurance income	49,736	49,221	515	1
Bank owned life insurance income	38,959	42,060	(3,101)	(7)
Capital markets fees	39,838	29,940	9,898	33
Gain on sale of loans	22,915	15,683	7,232	46
Securities gains (losses)	270	17,658	(17,388)	(98)
Other income	112,074	97,323	14,751	15
Total noninterest income	766,515	745,901	20,614	3
Personnel costs	833,321	785,486	47,835	6
Outside data processing and other services	167,578	158,901	8,677	5
Net occupancy	88,942	96,511	(7,569)	(8)
Equipment	93,246	87,682	5,564	6
Professional services	37,281	43,890	(6,609)	(15)
Marketing	40,178	38,094	2,084	5
Deposit and other insurance expense	33,504	35,945	(2,441)	(7)
Amortization of intangibles	24,079	28,624	(4,545)	(16)
Other expense	159,013	123,942	35,071	28
Total noninterest expense	1,477,142	1,399,075	78,067	6
Income before income taxes	679,713	632,220	47,493	8
Provision for income taxes	165,065	163,442	1,623	1
Net income	514,648	468,778	45,870	10
Dividends declared on preferred shares	23,901	23,891	10	—
Net income applicable to common shares	$490,747	$444,887	$45,860	10 %
Average common shares—basic	805,851	820,884	(15,033)	(2)%
Average common shares—diluted	819,458	833,927	(14,469)	(2)
Per common share				
Net income per common share—basic	$0.61	$0.54	$0.07	13 %
Net income per common share—diluted	0.60	0.53	0.07	13
Cash dividends declared	0.18	0.15	0.03	20
Revenue—FTE				
Net interest income	$1,453,826	$1,363,889	$89,937	7 %
FTE adjustment	23,690	20,028	3,662	18
Net interest income (2)	1,477,516	1,383,917	93,599	7

Noninterest income	766,515	745,901	20,614	3	
Total revenue (2)	$2,244,031	$2,129,818	$114,213	5	%

(1) Comparisons for presented periods are impacted by a number of factors. Refer to the "Significant Items" for additional discussion regarding these key factors.
(2) On a fully taxable equivalent (FTE) basis assuming a 35% tax rate.

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Significant Items

Definition of Significant Items

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

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

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

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

Significant Items Influencing Financial Performance Comparisons

Earnings comparisons were impacted by the Significant Items summarized below:

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

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

- During the 2015 third quarter, $4.8 million of noninterest expense was recorded related to the acquisition of Huntington Technology Finance and the pending transition of the Huntington Funds and the sale of Huntington Asset Advisors, which is expected to be completed during the 2015 fourth quarter.

- As previously disclosed, the 2015 second quarter and 2015 first quarter included $1.5 million and $3.4 million, respectively, of Huntington Technology Finance merger-related noninterest expense that was not originally reported as a Significant Item for the quarter. As a result of 2015 third quarter activity, merger related expense has been identified as a Significant Item for the 2015 full year and, as such, these amounts are now included as Significant Items.

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

- During the 2014 second quarter, $0.8 million of noninterest expense was recorded related to the acquisition of 24 Bank of America branches.

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During the 2014 first quarter, $12.6 million of noninterest expense and $0.8 million of noninterest income was recorded related to the acquisition of Camco Financial. This net $11.8 million resulted in a negative impact of $0.01 per common share.

3. Litigation Reserve. $38.2 million and $9.0 million of net additions to litigation reserves were recorded as other noninterest expense during the 2015 third quarter and 2014 first quarter, respectively. This resulted in a negative impact of $0.03 and $0.01 per common share during the 2015 third quarter and 2014 first quarter, respectively.

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

Table 3 - Significant Items Influencing Earnings Performance Comparison
(dollar amounts in thousands, except per share amounts)

	Three Months Ended					
	September 30, 2015		June 30, 2015		September 30, 2014	
	After-tax	EPS (2)(3)	After-tax	EPS (2)(3)	After-tax	EPS (2)(3)
Net income	$152,588		$196,206		$155,016	
Earnings per share, after-tax		$0.18		$0.23		$0.18
Significant Items—favorable (unfavorable) impact:	Earnings (1)	EPS (2)(3)	Earnings (1)	EPS (2)(3)	Earnings (1)	EPS (2)(3)
Net additions to litigation reserves	$(38,186)	$(0.03)	$—	$—	$—	$—
Mergers and acquisitions, net	(4,839)	—	(1,501)	—	(3,490)	—
Franchise repositioning related expense	—	—	—	—	(19,333)	(0.02)

	Nine Months Ended			
	September 30, 2015		September 30, 2014	
	After-tax	EPS (2)(3)	After-tax	EPS (2)(3)
Net income	$514,648		$468,778	
Earnings per share, after-tax		$0.60		$0.53
Significant Items—favorable (unfavorable) impact:	Earnings (1)	EPS (2)(3)	Earnings (1)	EPS (2)(3)
Net additions to litigation reserves	$(38,186)	$(0.03)	$(9,000)	$(0.01)
Merger and acquisition, net	(9,691)	(0.01)	(16,088)	(0.01)
Franchise repositioning related expense	—	—	(19,333)	(0.02)

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

Net Interest Income / Average Balance Sheet

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

Table 4 - Consolidated Quarterly Average Balance Sheets
(dollar amounts in millions)

	Average Balances						
	Three Months Ended					Change	
	September 30,	June 30,	March 31,	December 31,	September 30,	3Q15 vs. 3Q14	
	2015	2015	2015	2014	2014	Amount	Percent
Assets:							
Interest-bearing deposits in banks	$89	$89	$94	$85	$82	$7	9 %
Loans held for sale	464	1,272	381	374	351	113	32
Securities:							
Available-for-sale and other securities:							
Taxable	8,310	7,916	7,664	7,291	6,935	1,375	20

Tax-exempt	2,136	2,028	1,874	1,684	1,620	516	32
Total available-for-sale and other securities	10,446	9,944	9,538	8,975	8,555	1,891	22
Trading account securities	52	41	53	49	50	2	4
Held-to-maturity securities—taxable	3,226	3,324	3,347	3,435	3,556	(330)	(9)
Total securities	13,724	13,309	12,938	12,459	12,161	1,563	13
Loans and leases: (1)							

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Commercial:							
Commercial and industrial	19,802	19,819	19,116	18,880	18,581	1,221	7
Commercial real estate:							
Construction	1,101	970	887	822	775	326	42
Commercial	4,193	4,214	4,275	4,262	4,188	5	—
Commercial real estate	5,294	5,184	5,162	5,084	4,963	331	7
Total commercial	25,096	25,003	24,278	23,964	23,544	1,552	7
Consumer:							
Automobile	8,879	8,083	8,783	8,512	8,012	867	11
Home equity	8,526	8,503	8,484	8,452	8,412	114	1
Residential mortgage	6,048	5,859	5,810	5,751	5,747	301	5
Other consumer	497	451	425	413	398	99	25
Total consumer	23,950	22,896	23,502	23,128	22,569	1,381	6
Total loans and leases	49,046	47,899	47,780	47,092	46,113	2,933	6
Allowance for loan and lease losses	(609)	(608)	(612)	(631)	(633)	24	(4)
Net loans and leases	48,437	47,291	47,168	46,461	45,480	2,957	7
Total earning assets	63,323	62,569	61,193	60,010	58,707	4,616	8
Cash and due from banks	1,555	926	935	929	887	668	75
Intangible assets	739	745	593	602	583	156	27
All other assets	4,296	4,251	4,142	4,022	3,929	367	9
Total assets	$69,304	$67,883	$66,251	$64,932	$63,473	$5,831	9 %
Liabilities and Shareholders' Equity:							
Deposits:							
Demand deposits—noninterest-bearing	$17,017	$15,893	$15,253	$15,179	$14,090	$2,927	21 %
Demand deposits—interest-bearing	6,604	6,584	6,173	5,948	5,913	691	12
Total demand deposits	23,621	22,477	21,426	21,127	20,003	3,618	18
Money market deposits	19,512	18,803	19,368	18,401	17,929	1,583	9
Savings and other domestic deposits	5,224	5,273	5,169	5,052	5,020	204	4
Core certificates of deposit	2,534	2,639	2,814	3,058	3,167	(633)	(20)
Total core deposits	50,891	49,192	48,777	47,638	46,119	4,772	10
Other domestic time deposits of $250,000 or more	217	184	195	201	223	(6)	(3)
Brokered deposits and negotiable CDs	2,779	2,701	2,600	2,434	2,262	517	23
Deposits in foreign offices	492	562	557	479	374	118	32
Total deposits	54,379	52,639	52,129	50,752	48,978	5,401	11
Short-term borrowings	844	2,153	1,882	2,683	3,193	(2,349)	(74)
Long-term debt	6,066	5,139	4,374	3,956	3,967	2,099	53
Total interest-bearing liabilities	44,272	44,038	43,132	42,212	42,048	2,224	5
All other liabilities	1,442	1,435	1,450	1,167	1,043	399	38
Shareholders' equity	6,573	6,517	6,416	6,374	6,292	281	4
Total liabilities and shareholders' equity	$69,304	$67,883	$66,251	$64,932	$63,473	$5,831	9 %

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

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Table 5 - Consolidated Quarterly Net Interest Margin Analysis

	Average Yield Rates (2)				
	Three Months Ended				
Fully-taxable equivalent basis (1)	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Assets:					
Interest-bearing deposits in banks	0.06 %	0.08 %	0.18 %	0.23 %	0.19 %
Loans held for sale	3.81	3.32	3.69	3.82	3.98
Securities:					
Available-for-sale and other securities:					
Taxable	2.51	2.60	2.50	2.61	2.48
Tax-exempt	3.12	3.13	3.05	3.26	3.02
Total available-for-sale and other securities	2.63	2.71	2.61	2.73	2.59
Trading account securities	0.97	1.00	1.17	1.05	0.85
Held-to-maturity securities—taxable	2.46	2.50	2.47	2.45	2.45
Total securities	2.59	2.65	2.57	2.65	2.54
Loans and leases: (3)					
Commercial:					
Commercial and industrial	3.58	3.61	3.33	3.35	3.45
Commercial real estate:					
Construction	3.52	3.60	3.81	4.30	4.38
Commercial	3.43	3.41	3.57	3.47	3.60
Commercial real estate	3.45	3.45	3.62	3.60	3.72
Total commercial	3.55	3.58	3.39	3.40	3.51
Consumer:					
Automobile	3.23	3.20	3.24	3.33	3.41
Home equity	4.01	3.97	4.03	4.05	4.07
Residential mortgage	3.71	3.72	3.75	3.84	3.78
Other consumer	8.88	8.45	8.20	7.68	7.31
Total consumer	3.75	3.73	3.74	3.80	3.82
Total loans and leases	3.65	3.65	3.56	3.60	3.66
Total earning assets	3.42	3.45	3.38	3.41	3.44
Liabilities:					
Deposits:					
Demand deposits—noninterest-bearing	—	—	—	—	—
Demand deposits—interest-bearing	0.07	0.06	0.05	0.04	0.04
Total demand deposits	0.02	0.02	0.01	0.01	0.01
Money market deposits	0.23	0.22	0.21	0.22	0.23
Savings and other domestic deposits	0.14	0.14	0.15	0.16	0.16
Core certificates of deposit	0.80	0.78	0.76	0.75	0.74
Total core deposits	0.23	0.22	0.22	0.23	0.23
Other domestic time deposits of $250,000 or more	0.43	0.44	0.42	0.43	0.44
Brokered deposits and negotiable CDs	0.17	0.17	0.17	0.18	0.20
Deposits in foreign offices	0.13	0.13	0.13	0.13	0.13
Total deposits	0.22	0.22	0.22	0.23	0.23
Short-term borrowings	0.09	0.14	0.12	0.12	0.11
Long-term debt	1.44	1.44	1.31	1.35	1.35

Total interest-bearing liabilities	0.39	0.36	0.32	0.32	0.33
Net interest rate spread	3.03	3.09	3.06	3.09	3.11
Impact of noninterest-bearing funds on margin	0.13	0.11	0.09	0.09	0.09
Net interest margin	3.16 %	3.20 %	3.15 %	3.18 %	3.20 %

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

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(2) Loan, 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.

2015 Third Quarter versus 2014 Third Quarter

Fully-taxable equivalent net interest income for the 2015 third quarter increased $29.8 million, or 6%, from the 2014 third quarter. This reflected the benefit from the $4.6 billion, or 8%, increase in average earning assets partially offset by a 4 basis point reduction in the FTE net interest margin to 3.16%. Average earning asset growth included a $2.9 billion, or 6%, increase in average loans and leases and a $1.6 billion, or 13%, increase in average securities. The NIM contraction reflected a 2 basis point decrease related to the mix and yield of earning assets and 6 basis point increase in funding costs, partially offset by the 4 basis point increase in the benefit from noninterest-bearing funds.

Average earning assets for the 2015 third quarter increased $4.6 billion, or 8%, from the year-ago quarter, driven by:

- $1.6 billion, or 13%, increase in average securities, primarily reflecting the reinvestment of cash flows and additional investment in LCR Level 1 qualifying securities. The 2015 third quarter average balance also included $1.8 billion of direct purchase municipal instruments originated by our Commercial segment, up from $1.2 billion in the year-ago quarter.
- $1.2 billion, or 7%, increase in average C&I loans and leases, primarily reflecting the $0.8 billion of equipment finance leases acquired in the Huntington Technology Finance transaction at the end of the 2015 first quarter, as well as growth in corporate banking and automobile dealer floorplan lending.
- $0.9 billion, or 11%, increase in average Automobile loans. The 2015 third quarter represented the seventh consecutive quarter of greater than $1.0 billion in originations.
- $0.3 billion, or 7%, increase in average Commercial Real Estate loans, primarily Construction loans.

Average total deposits for the 2015 third quarter increased $5.4 billion, or 11%, from the year-ago quarter, including a $4.8 billion, or 10%, increase in average total core deposits. The growth in average total core deposits more than fully funded the year-over-year increase in average earning assets. The increase in average total deposits included $0.7 billion of deposits acquired in the Bank of America branch acquisition late in the 2014 third quarter. Average total interest-bearing liabilities increased $2.2 billion, or 5%, from the year-ago quarter. Year-over-year changes in total liabilities reflected:

- $3.6 billion, or 18%, increase in demand deposits, reflecting a $2.7 billion, or 22%, increase in commercial demand deposits and a $0.9 billion, or 12%, increase in consumer demand deposits.
- $1.6 billion, or 9%, increase in money market deposits, reflecting continued banker focus across all segments on obtaining our customers' full deposit relationship.
- $0.5 billion, or 23%, increase in brokered deposits and negotiable CDs, which were used to efficiently finance balance sheet growth while continuing to manage the overall cost of funds.

Partially offset by:

- $0.6 billion, or 20%, decrease in average core certificates of deposit due to the strategic focus on changing the funding sources to low- and no-cost demand deposits and money market deposits.
- $0.3 billion, or 3%, decrease in average short- and long-term borrowings, reflecting a $2.3 billion, or 74%, reduction in short-term borrowings partially offset by a $2.1 billion, or 53%, increase in long-term debt. The increase in long-term debt reflected the issuance of $1.0 billion, $0.8 billion, and $0.5 billion of bank-level senior debt during the 2015 first quarter, 2015 second quarter, and 2015 third quarter, respectively, as well as $0.5 billion of debt assumed in the Huntington Technology Finance acquisition at the end of the 2015 first quarter.

2015 Third Quarter versus 2015 Second Quarter

Compared to the 2015 second quarter, FTE net interest income increased $5.0 million, or 1%. Average earning assets increased $0.8 billion, or 1%, sequentially, while the NIM decreased 4 basis points. The decrease in the NIM reflected a 3 basis point decrease in earning asset yields due to continued pricing pressure across several asset classes and a 3 basis point increase in the cost of interest-bearing liabilities, partially offset by a 2 basis point increase in the benefit from noninterest bearing funds.

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Compared to the 2015 second quarter, average earning assets increased $0.8 billion, or 1%. This increase reflected a $0.8 billion increase in automobile loans and a $0.4 billion increase in average securities, partially offset by a $0.8 billion decrease in loans held-for-sale. The decrease in loans held-for-sale was impacted by the securitization and sale of $750 million of automobile loans in the last month of the 2015 second quarter.

Compared to the 2015 second quarter, average noninterest bearing deposits increased $1.1 billion, or 7%, and while average total interest-bearing liabilities increased $0.2 billion, or 1%, reflecting a $1.3 billion, or 61%, decrease in short-term borrowings partially offset by a $0.9 billion, or 18%, increase in long-term debt related to the 2015 second quarter and 2015 third quarter bank-level senior debt issuances.

Table 6 - Consolidated YTD Average Balance Sheets and Net Interest Margin Analysis
(dollar amounts in millions)

	YTD Average Balances Nine Months Ended September 30,		Change		YTD Average Rates (2) Nine Months Ended September 30,	
Fully-taxable equivalent basis (1)	2015	2014	Amount	Percent	2015	2014
Assets:						
Interest-bearing deposits in banks	$90	$85	$5	6 %	0.11 %	0.08 %
Loans held for sale	706	306	400	131	3.49	3.99
Securities:						
Available-for-sale and other securities:						
Taxable	7,966	6,615	1,351	20	2.54	2.49
Tax-exempt	2,014	1,344	670	50	3.10	3.06
Total available-for-sale and other securities	9,980	7,959	2,021	25	2.65	2.59
Trading account securities	49	45	4	9	1.06	0.87
Held-to-maturity securities—taxable	3,299	3,671	(372)	(10)	2.47	2.46
Total securities	13,328	11,675	1,653	14	2.60	2.54
Loans and leases: (3)						
Commercial:						
Commercial and industrial	19,581	18,161	1,420	8	3.51	3.50
Commercial real estate:						
Construction	987	697	290	42	3.64	4.24
Commercial	4,227	4,274	(47)	(1)	3.47	3.87
Commercial real estate	5,214	4,971	243	5	3.50	3.92
Total commercial	24,795	23,132	1,663	7	3.51	3.59
Consumer:						
Automobile	8,582	7,387	1,195	16	3.23	3.47
Home equity	8,504	8,376	128	2	4.01	4.10
Residential mortgage	5,906	5,579	327	6	3.72	3.78
Other consumer	458	389	69	18	8.53	7.16
Total consumer	23,450	21,731	1,719	8	3.74	3.86
Total loans and leases	48,245	44,863	3,382	8	3.62	3.72
Allowance for loan and lease losses	(610)	(641)	31	(5)		
Net loans and leases	47,635	44,222	3,413	8		

Total earning assets	62,369	56,929	5,440	10	3.42 %	3.50 %
Cash and due from banks	1,140	888	252	28		

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Intangible assets	693	570	123	22		
All other assets	4,231	3,934	297	8		
Total assets	$67,823	$61,680	$6,143	10 %		
Liabilities and Shareholders' Equity:						
Deposits:						
Demand deposits—noninterest-bearing	$16,061	$13,586	$2,475	18 %	— %	— %
Demand deposits—interest-bearing	6,455	5,878	577	10	0.06	0.04
Total demand deposits	22,516	19,464	3,052	16	0.02	0.01
Money market deposits	19,228	17,753	1,475	8	0.22	0.24
Savings and other domestic deposits	5,222	5,025	197	4	0.14	0.18
Core certificates of deposit	2,661	3,403	(742)	(22)	0.78	0.83
Total core deposits	49,627	45,645	3,982	9	0.22	0.26
Other domestic time deposits of $250,000 or more	199	256	(57)	(22)	0.43	0.43
Brokered deposits and negotiable CDs	2,694	2,040	654	32	0.17	0.24
Deposits in foreign offices	537	339	198	58	0.13	0.13
Total deposits	53,057	48,280	4,777	10	0.22	0.26
Short-term borrowings	1,623	2,787	(1,164)	(42)	0.12	0.10
Long-term debt	5,199	3,340	1,859	56	1.40	1.46
Total interest-bearing liabilities	43,818	40,821	2,997	7	0.36	0.34
All other liabilities	1,442	1,038	404	39		
Shareholders' equity	6,502	6,235	267	4		
Total liabilities and shareholders' equity	$67,823	$61,680	$6,143	10 %		
Net interest rate spread					3.06	3.15
Impact of noninterest-bearing funds on margin					0.11	0.10
Net interest margin					3.17 %	3.25 %

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

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

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

2015 First Nine Months versus 2014 First Nine Months

Fully-taxable equivalent net interest income for the first nine-month period of 2015 increased $93.6 million, or 7%, reflecting the benefit of a $5.4 billion, or 10%, increase in average total earning assets. The fully-taxable equivalent net interest margin decreased to 3.17% from 3.25%. The increase in average earning assets reflected:

- $3.4 billion, or 8%, increase in average total loans and leases, reflecting the equipment finance leases acquired in the Huntington Technology Finance transaction at the end of the 2015 first quarter and ongoing strong automobile loan originations.
- $1.7 billion, or 14%, increase in average securities reflecting additional investment in LCR Level 1 qualifying securities.
- $0.4 billion, or 131%, increase in average loans held for sale, reflecting the 2015 second quarter securitization and sale of automobile loans.

Provision for Credit Losses

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(This section should be read in conjunction with the Credit Risk section.)
The provision for credit losses is the expense necessary to maintain the ALLL and the AULC at levels appropriate to absorb our estimate of credit losses in the loan and lease portfolio and the portfolio of unfunded loan commitments and letters-of-credit.
The provision for credit losses for the 2015 third quarter was $22.5 million compared with $20.4 million for the 2015 second quarter and $24.5 million for the 2014 third quarter. On a year-to-date basis, provision for credit losses for the first nine-month period of 2015 was $63.5 million, a decrease of $15.0 million, or 19%, compared to year-ago period (See Credit Quality discussion). Given the low level of the provision for credit losses and the uneven nature of commercial charge-offs and recoveries, some degree of volatility on a quarter-to-quarter basis is expected.

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

Table 7 - Noninterest Income
(dollar amounts in thousands)

	Three Months Ended					3Q15 vs 3Q14		3Q15 vs 2Q15	
	September 30,	June 30,	March 31,	December 31,	September 30,	Change		Change	
	2015	2015	2015	2014	2014	Amount	Percent	Amount	Percent
Service charges on deposit accounts	$75,157	$70,118	$62,220	$67,408	$69,118	$6,039	9 %	$5,039	7 %
Trust services	24,972	26,550	29,039	28,781	28,045	(3,073)	(11)	(1,578)	(6)
Electronic banking	30,832	30,259	27,398	27,993	27,275	3,557	13	573	2
Mortgage banking income	18,956	38,518	22,961	14,030	25,051	(6,095)	(24)	(19,562)	(51)
Brokerage income	15,059	15,184	15,500	16,050	17,155	(2,096)	(12)	(125)	(1)
Insurance income	16,204	17,637	15,895	16,252	16,729	(525)	(3)	(1,433)	(8)
Bank owned life insurance income	12,719	13,215	13,025	14,988	14,888	(2,169)	(15)	(496)	(4)
Capital markets fees	12,741	13,192	13,905	13,791	10,246	2,495	24	(451)	(3)
Gain on sale of loans	5,873	12,453	4,589	5,408	8,199	(2,326)	(28)	(6,580)	(53)
Securities gains (losses)	188	82	—	(104)	198	(10)	(5)	106	129
	40,418	44,565	27,091	28,681	30,445	9,973	33	(4,147)	(9)

Other income										
Total noninterest income	$253,119	$281,773	$231,623	$233,278	$247,349	$5,770	2	%	$(28,654)	(10)%

2015 Third Quarter versus 2014 Third Quarter

Noninterest income increased $5.8 million, or 2%, from the year-ago quarter. The year-over-year increase primarily reflected:

- $10.0 million, or 33%, increase in other income, primarily reflecting equipment operating lease income related to Huntington Technology Finance.
- $6.0 million, or 9%, increase in service charges on deposit accounts, reflecting the benefit of continued new customer acquisition including a 3.1% increase in commercial checking relationships and a 3.8% increase in consumer checking households.
- $3.6 million, or 13%, increase in electronic banking, due to higher card related income and underlying customer growth.

Partially offset by:

- $6.1 million, or 24%, decrease in mortgage banking income, reflecting a $9.2 million decrease from MSR hedging-related activities partially offset by a $4.5 million increase in origination and secondary marketing revenues.
- $3.1 million, or 11%, decrease in trust services, primarily related to our fiduciary trust businesses moving to a more open architecture platform and a decline in assets under management in proprietary mutual funds. While not affecting results, during the 2015 third quarter, we entered into agreements to transition the remaining Huntington Funds and to sell Huntington Asset Advisors in transactions expected to close in the 2015 fourth quarter.

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2015 Third Quarter versus 2015 Second Quarter

Compared to the 2015 second quarter, total noninterest income decreased $28.7 million, or 10%. Mortgage banking income decreased $19.6 million, or 51%, primarily driven by a $14.4 million decrease in net MSR hedging-related activities and a $6.3 million, or 24%, decrease in origination and secondary marketing income. Gain on sale of loans decreased $6.6 million, or 53%, primarily reflecting a $5.3 million automobile loan securitization gain during the 2015 second quarter. Service charges on deposit accounts increased $5.0 million, or 7%, as the quarter benefited from continued growth in consumer households and commercial relationships.

Table 8 - Noninterest Income—2015 First Nine Months vs. 2014 First Nine Months
(dollar amounts in thousands)

	Nine Months Ended September 30,		Change	
	2015	2014	Amount	Percent
Service charges on deposit accounts	$207,495	$206,333	$1,162	1 %
Trust services	80,561	87,191	(6,630)	(8)
Electronic banking	88,489	77,408	11,081	14
Mortgage banking income	80,435	70,857	9,578	14
Brokerage income	45,743	52,227	(6,484)	(12)
Insurance income	49,736	49,221	515	1
Bank owned life insurance income	38,959	42,060	(3,101)	(7)
Capital markets fees	39,838	29,940	9,898	33
Gain on sale of loans	22,915	15,683	7,232	46
Securities gains (losses)	270	17,658	(17,388)	(98)
Other income	112,074	97,323	14,751	15
Total noninterest income	$766,515	$745,901	$20,614	3 %

The $20.6 million, or 3%, increase in total noninterest income reflected:

- $14.8 million, or 15%, increase in other income, primarily reflecting equipment operating lease income related to Huntington Technology Finance.
- $11.1 million, or 14%, increase in electronic banking income, primarily due to higher card-related income and underlying customer growth.
- $9.9 million, or 33%, increase in capital market fees, primarily related to an increase in foreign exchange fees, underwriting fees, commodities revenue, and customer interest rate derivatives.
- $9.6 million, or 14%, increase in mortgage banking income. The increase reflected a $22.0 million increase in origination and secondary marketing revenues offset by a $7.0 million decrease from MSR hedging-related activities, a $3.1 million decrease in other mortgage banking income, and a $2.0 million increase in amortization of capitalized servicing.
- $7.2 million, or 46%, increase in gain on sale of loans, including the $5.3 million automobile loan securitization gain in the 2015 second quarter.

Partially offset by:

- $17.4 million, or 98%, decrease in securities gains.
- $6.6 million, or 8%, decrease in trust services, primarily related to our fiduciary trust businesses moving to a more open architecture platform and a decline in assets under management in proprietary mutual funds following the 2014 second quarter transition of the fixed income Huntington Funds to a third party.
- $6.5 million, or 12%, decrease in brokerage income, primarily reflecting a shift from upfront commission income to trailing commissions and an increase in the sale of new open architecture advisory products.

Noninterest Expense

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

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

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Table 9 - Noninterest Expense
(dollar amounts in thousands)

	Three Months Ended					3Q15 vs 3Q14		3Q15 vs 2Q15	
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	Change Amount	Percent	Change Amount	Percent
Personnel costs	$286,270	$282,135	$264,916	$263,289	$275,409	$10,861	4 %	$4,135	1 %
Outside data processing and other services	58,535	58,508	50,535	53,685	53,073	5,462	10	27	—
Net occupancy	29,061	28,861	31,020	31,565	34,405	(5,344)	(16)	200	1
Equipment	31,303	31,694	30,249	31,981	30,183	1,120	4	(391)	(1)
Professional services	11,961	12,593	12,727	15,665	13,763	(1,802)	(13)	(632)	(5)
Marketing	12,179	15,024	12,975	12,466	12,576	(397)	(3)	(2,845)	(19)
Deposit and other insurance expense	11,550	11,787	10,167	13,099	11,628	(78)	(1)	(237)	(2)
Amortization of intangibles	3,913	9,960	10,206	10,653	9,813	(5,900)	(60)	(6,047)	(61)
Other expense	81,736	41,215	36,062	50,868	39,468	42,268	107	40,521	98
Total noninterest expense	$526,508	$491,777	$458,857	$483,271	$480,318	$46,190	10 %	$34,731	7 %
Number of employees (average full-time equivalent)	12,367	12,274	11,914	11,875	11,946	421	4 %	93	1 %

Impacts of Significant Items:

	Three Months Ended		
	September 30, 2015	June 30, 2015	September 30, 2014
Personnel costs	$2,806	$319	$15,344
Outside data processing and other services	1,569	755	292
Net occupancy	—	—	5,202
Equipment	—	—	110
Professional services	273	374	6
Marketing	—	27	783
Other expense	38,377	26	1,086
Total noninterest expense adjustments	$43,025	$1,501	$22,823

Adjusted Noninterest Expense (Non-GAAP):

	Three Months Ended			3Q15 vs 3Q14		3Q15 vs 2Q15	
	September 30,	June 30,	September 30,	Change		Change	
	2015	2015	2014	Amount	Percent	Amount	Percent
Personnel costs	$283,464	$281,816	$260,065	$23,399	9 %	$1,648	1 %
Outside data processing and other services	56,966	57,753	52,781	4,185	8	(787)	(1)
Net occupancy	29,061	28,861	29,203	(142)	—	200	1
Equipment	31,303	31,694	30,073	1,230	4	(391)	(1)
Professional services	11,688	12,219	13,757	(2,069)	(15)	(531)	(4)
Marketing	12,179	14,997	11,793	386	3	(2,818)	(19)
Deposit and other insurance expense	11,550	11,787	11,628	(78)	(1)	(237)	(2)
Amortization of intangibles	3,913	9,960	9,813	(5,900)	(60)	(6,047)	(61)
Other expense	43,359	41,189	38,382	4,977	13	2,170	5
Total adjusted noninterest expense	$483,483	$490,276	$457,495	$25,988	6 %	$(6,793)	(1)%

2015 Third Quarter versus 2014 Third Quarter

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Reported noninterest expense increased $46.2 million, or 10%, from the year-ago quarter. Changes in reported noninterest expense primarily reflect:

- $42.3 million, or 107%, increase in other expense, primarily reflecting the $38.2 million increase to litigation reserves as well as $5.5 million related to Huntington Technology Finance operating lease expense.
- $10.9 million, or 4%, increase in personnel costs, reflecting a $24.2 million increase in salaries related to both annual merit increases and a 4% increase in the number of average full-time equivalent employees, partially offset by the $12.5 million change in Significant Items.
- $5.5 million, or 10%, increase in outside data processing and other services expense, primarily related to technology investments.

Partially offset by

- $5.9 million, or 60%, decrease in amortization of intangibles reflecting the full amortization of the core deposit intangible from the Sky Financial acquisition.
- $5.3 million, or 16%, decrease in net occupancy costs, reflecting the Significant Item in the year ago quarter related to franchise repositioning actions.

2015 Third Quarter versus 2015 Second Quarter

Reported noninterest expense increased $34.7 million, or 7%, from the 2015 second quarter. Other expense increased $40.5 million, or 98%, from the prior quarter, primarily reflecting the $38.2 million addition to litigation reserves. Personnel costs increased $4.1 million, or 1%, as a result of a $7.4 million increase in salaries, including $2.5 million of merger and acquisition-related Significant Items, partially offset by a $3.2 million decrease in benefits expense. Amortization of intangibles decreased $6.0 million, or 61%, reflecting the full amortization of the core deposit intangible from the Sky Financial acquisition. Marketing expense decreased $2.8 million, or 19%, due to the timing of marketing campaigns.

Table 10 - Noninterest Expense—2015 First Nine Months vs. 2014 First Nine Months
(dollar amounts in thousands)

	Nine Months Ended September 30,		Change	
	2015	2014	Amount	Percent
Personnel costs	$833,321	$785,486	$47,835	6 %
Outside data processing and other services	167,578	158,901	8,677	5
Net occupancy	88,942	96,511	(7,569)	(8)
Equipment	93,246	87,682	5,564	6
Professional services	37,281	43,890	(6,609)	(15)
Marketing	40,178	38,094	2,084	5
Deposit and other insurance expense	33,504	35,945	(2,441)	(7)
Amortization of intangibles	24,079	28,624	(4,545)	(16)
Other expense	159,013	123,942	35,071	28
Total noninterest expense	$1,477,142	$1,399,075	$78,067	6 %

Impacts of Significant Items:

	Nine Months Ended September 30,	
	2015	2014
Personnel costs	$3,125	$17,685
Outside data processing and other services	2,375	5,201
Net occupancy	—	7,003
Equipment	—	245
Professional services	3,934	2,228
Marketing	28	1,343
Other expense	38,415	11,496

Total noninterest expense adjustments	$47,877	$45,201

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Adjusted Noninterest Expense (Non-GAAP):

	Nine Months Ended September 30,		Change	
	2015	2014	Amount	Percent
Personnel costs	$830,196	$767,801	$62,395	8 %
Outside data processing and other services	165,203	153,700	11,503	7
Net occupancy	88,942	89,508	(566)	(1)
Equipment	93,246	87,437	5,809	7
Professional services	33,347	41,662	(8,315)	(20)
Marketing	40,150	36,751	3,399	9
Deposit and other insurance expense	33,504	35,945	(2,441)	(7)
Amortization of intangibles	24,079	28,624	(4,545)	(16)
Other expense	120,598	112,446	8,152	7
Total noninterest expense adjustments	$1,429,265	$1,353,874	$75,391	6 %

Reported noninterest expense increased $78.1 million, or 6%. Excluding the impact of Significant Items, noninterest expense increased $75.4 million, or 6%. Changes in reported noninterest expense primarily reflect:

- $47.8 million, or 6%, increase in personnel costs. Excluding the impact of significant items, personnel costs increased $62.4 million, or 8%, primarily related to a $56.3 million increase in salaries reflecting annual merit increases, a 3% increase in the number of average full-time equivalent employees, and a $6.6 million increase in benefits expense.
- $35.1 million, or 28%, increase in other expense. Excluding the impact of significant items, other expense increased $8.2 million, or 7%, primarily reflecting an $11.3 million increase in Huntington Technology Finance operating lease expense.
- $8.7 million, or 5%, increase in outside data processing and other services. Excluding the impact of significant items, outside data processing and other services increased $11.5 million, or 7%, primarily related to technology investments.

Partially offset by

- $6.6 million, or 15%, decrease in professional services. Excluding the impact of significant items, professional services decreased $8.3 million, or 20%, as the year-ago period included $8.9 million of consulting expense related to strategic planning.
- $7.6 million, or 8%, decrease in net occupancy costs. Excluding the impact of significant items, net occupancy costs decreased $566 thousand, or 1%.

Provision for Income Taxes

The provision for income taxes in the 2015 third quarter was $47.0 million. This compared with a provision for income taxes of $53.9 million in the 2014 third quarter and $64.1 million in the 2015 second quarter. The provision for income taxes for the nine-month periods ended September 30, 2015 and September 30, 2014 was $165.1 million and $163.4 million, respectively. All periods included the benefits from tax-exempt income, tax-advantaged investments, release of capital loss carryforward valuation allowance, general business credits, and investments in qualified affordable housing projects. At September 30, 2015 there is no capital loss carryforward valuation allowance remaining. The net federal deferred tax asset was $20.4 million and the net state deferred tax asset was $41.1 million at September 30, 2015.

We file income tax returns with the IRS and various state, city, and foreign jurisdictions. Federal income tax audits have been completed for tax years through 2009. The IRS is currently examining our 2010 and 2011 consolidated federal income tax returns. Various state and other jurisdictions remain open to examination, including Ohio, Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, 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

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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 identify primary risks, and the sources of those risks, across the Company. We utilize Risk and Control Self-Assessments (RCSA) to identify exposure risks. Through this RCSA process, we continually assess the effectiveness of controls associated with the identified risks, regularly monitor risk profiles and material exposure to losses, and identify stress events and scenarios to which we may be exposed. Our chief risk officer is responsible for ensuring that appropriate systems of controls are in place for managing and monitoring risk across the Company. Potential risk concerns are shared with the Risk Management Committee, Risk Oversight Committee, and the board of directors, as appropriate. Our internal audit department performs on-going independent reviews of the risk management process and ensures the adequacy of documentation. The results of these reviews are regularly reported to the audit committee and board of directors. In addition, our Credit Review group performs ongoing independent testing of our loan portfolio, the results of which are regularly reviewed with our Risk Oversight Committee.

We believe that our primary risk exposures are credit, market, liquidity, operational, and compliance oriented. More information on risk can be found in the Risk Factors section included in Item 1A of our 2014 Form 10-K and subsequent filings with the SEC. The MD&A included in our 2014 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 2014 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 and HTM securities portfolios (see Note 4 and Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements). We engage with other financial counterparties for a variety of purposes including investing, asset and liability management, mortgage banking, and trading activities. While there is credit risk associated with derivative activity, we believe this exposure is minimal.

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

Loan and Lease Credit Exposure Mix

At September 30, 2015, loans and leases totaled $49.7 billion, an increase of $2.0 billion from December 31, 2014. There was continued growth in the C&I portfolio, primarily as a result of an increase in equipment leases of $0.8 billion related to the acquisition of Huntington Technology Finance. In addition, automobile increased by $0.5 billion as a result of strong originations. The CRE portfolio had modest growth over the period as the continued run-off of the non-core portfolio was more than offset by new production within the requirements associated with our internal concentration limits. At September 30, 2015, commercial loans and leases totaled $25.4 billion and represented 51% of our total loan and lease credit exposure. Our commercial portfolio is diversified along product type, customer size, and geography within our footprint, and is comprised of the following (see Commercial Credit discussion).

C&I—C&I loans and leases are made to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. C&I loans and leases are generally underwritten individually and secured with the assets of the company and/or the personal guarantee of the business owners. The financing of owner occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a result of the credit decision process, which focuses on cash flow from operations of the business to repay the debt. The operation, sale, rental, or refinancing of the real estate is not considered the primary repayment source for these types of loans. As we have expanded our C&I portfolio, we have developed a series of “vertical specialties” to ensure that new products or lending types are embedded within a structured, centralized Commercial Lending area with designated, experienced credit officers. These specialties are comprised of either targeted industries (for example, Healthcare, Food & Agribusiness, Energy, etc.) and/or lending disciplines (Equipment Finance, ABL, etc.), all of which requires a high degree of expertise and oversight to effectively mitigate and monitor risk. As such, we have dedicated colleagues and teams focused on bringing value added expertise to these specialty clients.

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

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

Total consumer loans and leases were $24.2 billion at September 30, 2015, and represented 49% of our total loan and lease credit exposure. The consumer portfolio is comprised primarily of automobile loans, home equity loans and lines-of-credit, and residential mortgages (see Consumer Credit discussion). The increase from December 31, 2014, primarily relates to growth in the automobile portfolio.

Automobile—Automobile loans are comprised primarily of loans made through automotive dealerships and include exposure in selected states outside of our primary banking markets. The exposure outside of our primary banking markets represents 21% of the total exposure, with no individual state representing more than 7%. Applications are underwritten using an automated underwriting system that applies consistent policies and processes across the portfolio.

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

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

Other consumer—Other consumer loans primarily consists of consumer loans not secured by real estate, including personal unsecured loans, overdraft balances, and credit cards.

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

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Table 11 - Loan and Lease Portfolio Composition
(dollar amounts in millions)

	September 30, 2015			June 30, 2015			March 31, 2015			December 31, 2014			September 30, 2014		
Ending Balances by Type:															
Commercial:															
Commercial and industrial	$20,040	40	%	$20,003	41	%	$20,109	42	%	$19,033	40	%	$18,791	40	%
Commercial real estate:															
Construction	1,110	2		1,021	2		910	2		875	2		850	2	
Commercial	4,294	9		4,192	9		4,157	9		4,322	9		4,141	9	
Commercial real estate	5,404	11		5,213	11		5,067	11		5,197	11		4,991	11	
Total commercial	25,444	51		25,216	52		25,176	53		24,230	51		23,782	51	
Consumer:															
Automobile	9,160	19		8,549	18		7,803	16		8,690	18		8,322	18	
Home equity	8,461	17		8,526	17		8,492	18		8,491	18		8,436	18	
Residential mortgage	6,071	12		5,987	12		5,795	12		5,831	12		5,788	12	
Other consumer	520	1		474	1		430	1		414	1		395	1	
Total consumer	24,212	49		23,536	48		22,520	47		23,426	49		22,941	49	
Total loans and leases	$49,656	100	%	$48,752	100	%	$47,696	100	%	$47,656	100	%	$46,723	100	%

Our loan portfolio is diversified by consumer and commercial credit. At the corporate level, we manage the credit exposure in part via a credit concentration policy. The policy designates specific loan types, collateral types, and loan structures to be formally tracked and assigned limits as a percentage of capital. C&I lending by NAICS categories, specific limits for CRE primary project types, loans secured by residential real estate, shared national credit exposure, and designated high risk loan definitions represent examples of specifically tracked components of our concentration management process. Currently there are no identified concentrations that exceed the established limit. Our concentration management policy is approved by the Risk Oversight Committee 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.
The table below provides our total loan and lease portfolio segregated by the type of collateral securing the loan or lease. The changes in the collateral composition from December 31, 2014 are consistent with the portfolio growth metrics.

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Table 12 - Loan and Lease Portfolio by Collateral Type
(dollar amounts in millions)

	September 30, 2015		June 30, 2015		March 31, 2015			December 31, 2014		September 30, 2014	
Secured loans:											
Real estate—commercial	$8,470	17 %	$8,479	17 %	$8,463		18 %	$8,631	18 %	$8,628	18 %
Real estate—consumer	14,532	29	14,513	30	14,287		30	14,322	30	14,224	30
Vehicles	11,228	23	10,527	22	9,938	(1)	21	10,932	23	10,268	22
Receivables/Inventory	6,010	12	6,064	12	6,090		13	5,968	13	6,023	13
Machinery/Equipment	4,950	10	4,779	10	4,708	(2)	10	3,863	8	3,305	7
Securities/Deposits	1,054	2	1,095	2	956		2	964	2	1,232	3
Other	1,057	2	1,076	2	1,167		2	919	2	918	2
Total secured loans and leases	47,301	95	46,533	95	45,609		96	45,599	96	44,598	95
Unsecured loans and leases	2,355	5	2,219	5	2,087		4	2,057	4	2,125	5
Total loans and leases	$49,656	100 %	$48,752	100 %	$47,696		100 %	$47,656	100 %	$46,723	100 %

(1) Reflects the transfer of approximately $1.0 billion in automobile loans to loans held-for-sale.
(2) Reflects the addition of approximately $0.8 billion in equipment leases related to the acquisition of Huntington Technology Finance.

Commercial Credit

Refer to the “Commercial Credit” section of our 2014 Form 10-K for our commercial credit underwriting and on-going credit management processes.

C&I PORTFOLIO

The C&I portfolio continues to have solid origination activity as evidenced by the growth over the past 12 months and we maintain a focus on high quality originations. Problem loans had trended downward over the last several years, reflecting a combination of proactive risk identification and effective workout strategies implemented by the SAD. However, over the past year, C&I problem loans have begun to increase as the portfolio has increased in size. We continue to maintain a proactive approach to identifying borrowers that may be facing financial difficulty in order to maximize the potential solutions. Subsequent to the origination of the loan, the Credit Review group provides an independent review and assessment of the quality of the underwriting and risk of new loan originations.

CRE PORTFOLIO

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

Dedicated real estate professionals originate and manage the portfolio. The portfolio is diversified by project type and loan size, and this diversification represents a significant portion of the credit risk management strategies employed for this portfolio. Subsequent to the origination of the loan, the Credit Review group provides an independent review and assessment of the quality of the underwriting and risk of new loan originations.

Appraisal values are obtained in conjunction with all originations and renewals, and on an as needed basis, in compliance with regulatory requirements and to ensure appropriate decisions regarding the on-going management of the portfolio reflect the changing market conditions. Appraisals are obtained from approved vendors and are reviewed by an internal appraisal review group comprised of certified appraisers to ensure the quality of the valuation used in the underwriting process. We continue to perform on-going portfolio level reviews within the CRE portfolio. These reviews generate action plans based on occupancy levels or sales volume associated with the projects being reviewed. This highly individualized process requires working closely with all of our borrowers, as well as an in-depth knowledge of CRE project lending and the market environment.

Consumer Credit

Refer to the “Consumer Credit” section of our 2014 Form 10-K for our consumer credit underwriting and on-going credit management processes.

AUTOMOBILE PORTFOLIO

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

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

RESIDENTIAL REAL ESTATE SECURED PORTFOLIOS

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

Table 13 - Selected Home Equity and Residential Mortgage Portfolio Data
(dollar amounts in millions)

	Home Equity				Residential Mortgage	
	Secured by first-lien		Secured by junior-lien			
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Ending balance	$5,157	$ 5,129	$3,304	$ 3,362	$6,071	$ 5,831
Portfolio weighted average LTV ratio(1)	72 %	71 %	81 %	81 %	75 %	74 %
Portfolio weighted average FICO score(2)	760	759	755	752	751	752
	Home Equity				Residential Mortgage (3)	
	Secured by first-lien		Secured by junior-lien			
	Nine Months Ended September 30,					
	2015	2014	2015	2014	2015	2014
Originations	$1,301	$ 1,139	$697	$ 654	$1,127	$ 906
Origination weighted average LTV ratio(1)	73 %	74 %	84 %	83 %	85 %	84 %
Origination weighted average FICO score(2)	779	756	767	746	754	754

(1) The LTV ratios for home equity loans and home equity lines-of-credit are cumulative and reflect the balance of any senior loans. LTV ratios reflect collateral values at the time of loan origination.

(2) Portfolio weighted average FICO scores reflect currently updated customer credit scores whereas origination weighted average FICO scores reflect the customer credit scores at the time of loan origination.

(3) Represents only owned-portfolio originations.

Home Equity Portfolio

Within the home equity portfolio, the standard product is a 10-year interest-only draw period with a 20-year fully amortizing term at the end of the draw period. Prior to 2006, the standard product was a 10-year draw period with a balloon

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payment. In either case, after the 10-year draw period, the borrower must reapply, subject to full underwriting guidelines, to continue with the interest only revolving structure or begin repaying the debt in a term structure.
The principal and interest payment associated with the term structure will be higher than the interest-only payment, resulting in maturity risk. Our maturity risk can be segregated into two distinct segments: (1) home equity lines-of-credit underwritten with a balloon payment at maturity and (2) home equity lines-of-credit with an automatic conversion to a 20-year amortizing loan. We manage this risk based on both the actual maturity date of the line-of-credit structure and at the end of the 10-year draw period. This maturity risk is embedded in the portfolio which we address with proactive contact strategies beginning one year prior to maturity. In certain circumstances, our Home Saver group is able to provide payment and structure relief to borrowers experiencing significant financial hardship associated with the payment adjustment. Our existing home equity line-of-credit (HELOC) maturity strategy is consistent with ongoing regulatory guidance.
The table below summarizes our home equity line-of-credit portfolio by maturity date based on the balloon structure described above:

Table 14 - Maturity Schedule of Home Equity Line-of-Credit Portfolio
(dollar amounts in millions)

	September 30, 2015					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	Total
Secured by first-lien	$7	$1	$2	$1	$3,163	$3,174
Secured by junior-lien	119	115	22	14	2,696	2,966
Total home equity line-of-credit	$126	$116	$24	$15	$5,859	$6,140
	December 31, 2014					
Total home equity line-of-credit	$229	$123	$105	$19	$5,391	$5,867

The reduction in maturities presented in over 1-year up to 4-year categories is a result of our change to a product with a 20-year amortization period after 10-year draw period structure. Home equity lines-of-credit with balloon payment risk are essentially eliminated after 2015. The amounts maturing in more than four years primarily consist of exposure with a 20-year amortization period after the 10-year draw period.

Residential Mortgages Portfolio

Huntington underwrites all applications centrally, with a focus on higher quality borrowers. We do not originate residential mortgages that allow negative amortization or allow the borrower multiple payment options and have incorporated regulatory requirements and guidance into our underwriting process. Residential mortgages are originated based on a completed full appraisal during the credit underwriting process. We update values in compliance with applicable regulations to facilitate our portfolio management, as well as our workout and loss mitigation functions.
Several government programs continued to impact the residential mortgage portfolio, including various refinance programs such as HARP and HAMP, which positively affected the availability of credit for the industry. During the nine-month period ended September 30, 2015, we closed $164.1 million in HARP residential mortgages and $2.9 million in HAMP residential mortgages. The HARP and HAMP residential mortgage loans are part of our residential mortgage portfolio or serviced for others.
We are subject to repurchase risk associated with residential mortgage loans sold in the secondary market. An appropriate level of reserve for representations and warranties related to residential mortgage loans sold has been established to address this repurchase risk inherent in the portfolio (see Operational Risk discussion).

Credit Quality

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

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

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Credit quality performance in the 2015 third quarter continued to reflect overall positive results. Net charge-offs were substantially lower as a result of several large recoveries. NPA’s decreased 4% from the prior quarter to $381.4 million. Net charge-offs decreased by $9.2 million or 36% from the prior quarter. As a result of the overall continued credit quality improvement, the ACL to total loans ratio declined by 2 basis points to 1.32%.

NPAs, NALs, AND TDRs

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

NPAs and NALs

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

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

Of the $185.4 million of CRE and C&I-related NALs at September 30, 2015, $112.5 million, or 61%, represented loans that were less than 30-days past due, demonstrating our continued commitment to proactive credit risk management. With the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, first-lien loans secured by residential mortgage collateral are placed on nonaccrual status at 150-days past due. Junior-lien home equity loans are placed on nonaccrual status at the earlier of 120-days past due or when the related first-lien loan has been identified as nonaccrual. Automobile and other consumer loans are generally charged-off prior to the loan reaching 120-days past due.

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

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

Table 15 - Nonaccrual Loans and Leases and Nonperforming Assets
(dollar amounts in thousands)

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Nonaccrual loans and leases (NALs): (1)					
Commercial and industrial	$157,902	$149,713	$133,363	$71,974	$90,265
Commercial real estate	27,516	43,888	49,263	48,523	59,812
Automobile	5,551	4,190	4,448	4,623	4,834
Residential mortgage	98,908	91,198	98,093	96,564	98,139
Home equity	66,446	75,282	79,169	78,515	72,715
Other consumer	154	68	77	45	—
Total nonaccrual loans and leases	356,477	364,339	364,413	300,244	325,765
Other real estate, net:					
Residential	21,637	25,660	30,544	29,291	30,661
Commercial	3,273	3,572	3,407	5,748	5,609
Total other real estate, net	24,910	29,232	33,951	35,039	36,270
Other NPAs (2)	—	2,440	2,440	2,440	2,440
Total nonperforming assets	$381,387	$396,011	$400,804	$337,723	$364,475
Nonaccrual loans and leases as a % of total loans and leases	0.72 %	0.75 %	0.76 %	0.63 %	0.70 %
NPA ratio (3)	0.77	0.81	0.84	0.71	0.78
(NPA+90days)/(Loan+OREO) (4)	0.98	1.03	1.08	0.98	1.08

(1) Excludes loans transferred to held-for-sale.
(2) Other nonperforming assets includes certain impaired investment securities.
(3) Nonperforming assets divided by the sum of loans and leases, net other real estate owned, and other NPAs.
(4) The sum of nonperforming assets and total accruing loans and leases past due 90 days or more divided by the sum of loans and leases and other real estate.

2015 Third Quarter versus 2015 Second Quarter

Total NPAs decreased by $14.6 million, or 4% compared with June 30, 2015.

- $16.4 million, or 37%, decline in CRE NALs, reflecting improved delinquency trends and successful workout strategies implemented by our commercial loan workout group.
- $8.8 million, or 12%, decline in home equity NALs, primarily reflecting the impact of moving certain home equity TDRs from loans to loans held for sale.
- $4.3 million, or 15%, decline in OREO, specifically associated with the sale of residential properties.

Primarily offset by:

- $8.2 million, or 5%, increase in C&I NALs, primarily reflecting the addition of C&I relationships to nonaccrual status. Given the absolute low level of problem credits in the portfolio, some volatility should be expected.
- $7.7 million, or 8%, increase in residential mortgage NALs, reflecting a return to prior period levels.

2015 Third Quarter versus 2014 Fourth Quarter.

The $43.7 million, or 13%, increase in NPAs compared with December 31, 2014, represents:

- $85.9 million or 119%, increase in C&I NALs, primarily reflecting the addition of larger individual commercial credits with no specific industry or structure. Given the absolute low level of problem credits in the portfolio, some volatility should be expected.

Primarily offset by:

- $21.0 million or 43% decline in CRE NALs, reflecting improved delinquency trends and successful workout strategies implemented by our commercial loan workout group.

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- $12.1 million or 15% decline in home equity NALs, reflecting improved delinquency trends and moving $98.6 million of home equity TDRs from loans to loans held for sale.
- $10.1 million or 29% decline in OREO, specifically associated with the sale of residential properties.

TDR Loans

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

TDRs are modified loans where a concession was provided to a borrower experiencing financial difficulties. TDRs can be classified as either accrual or nonaccrual loans. Nonaccrual TDRs are included in NALs whereas accruing TDRs are excluded from NALs, as it is probable that all contractual principal and interest due under the restructured terms will be collected. TDRs primarily reflect our loss mitigation efforts to proactively work with borrowers in financial difficulty or regulatory regulations regarding the treatment of certain bankruptcy filing situations.

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

Table 16 - Accruing and Nonaccruing Troubled Debt Restructured Loans
(dollar amounts in thousands)

	September 30, 2015		June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Troubled debt restructured loans—accruing:						
Commercial and industrial	$241,327		$233,346	$162,207	$116,331	$89,783
Commercial real estate	103,767		158,056	161,515	177,156	186,542
Automobile	24,537		24,774	25,876	26,060	31,480
Home equity	192,356	(1)	279,864	265,207	252,084	229,500
Residential mortgage	277,154		266,986	268,441	265,084	271,762
Other consumer	4,569		4,722	4,879	4,018	3,313
Total troubled debt restructured loans—accruing	843,710		967,748	888,125	840,733	812,380
Troubled debt restructured loans—nonaccruing:						
Commercial and industrial	54,933		46,303	21,246	20,580	19,110
Commercial real estate	12,806		19,490	28,676	24,964	28,618
Automobile	5,400		4,030	4,283	4,552	4,817
Home equity	19,188	(2)	26,568	26,379	27,224	25,149
Residential mortgage	68,577		65,415	69,799	69,305	72,729
Other consumer	152		160	165	70	74
Total troubled debt restructured loans—nonaccruing	161,056		161,966	150,548	146,695	150,497
Total troubled debt restructured loans	$1,004,766		$1,129,714	$1,038,673	$987,428	$962,877

(1) Excludes approximately $87.9 million in accruing home equity TDRs transferred from loans to loans held for sale.
(2) Excludes approximately $8.9 million in nonaccruing home equity TDRs transferred from loans to loans held for sale.

Our strategy is to structure TDRs in a manner that avoids new concessions subsequent to the initial TDR terms. However, there are times when subsequent modifications are required, such as when the modified loan matures. Often the loans are performing in accordance with the TDR terms, and a new note is originated with similar modified terms. These loans are subjected to the normal underwriting standards and processes for other similar credit extensions, both new and existing. If the loan is not performing in accordance with the existing TDR terms, typically an individualized approach to repayment is established. In accordance with ASC 310-20-35, the refinanced note is evaluated to determine if it is considered a new loan or a continuation of the prior loan. A new loan is considered for removal of the TDR designation. A continuation of the prior note requires the continuation of the TDR designation, and because the refinanced note constitutes a new or amended debt instrument, it is included in our TDR activity table (below) as a new TDR and a restructured TDR removal during the period. The types of concessions granted are consistent with those granted on new TDRs and include interest rate reductions,

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amortization or maturity date changes beyond what the collateral supports, and principal forgiveness based on the borrower's specific needs at a point in time. Our policy does not limit the number of times a loan may be modified. A loan may be modified multiple times if it is considered to be in the best interest of both the borrower and Huntington. Commercial loans are not automatically considered to be accruing TDRs upon the granting of a new concession. If the loan is in accruing status and no loss is expected based on the modified terms, the modified TDR remains in accruing status. For loans that are on nonaccrual status before the modification, collection of both principal and interest must not be in doubt, and the borrower must be able to exhibit sufficient cash flows for at least a six-month period of time to service the debt in order to return to accruing status. This six-month period could extend before or after the restructure date.

Any granted change in terms or conditions that are not readily available in the market for that borrower requires the designation as a TDR. There are no provisions for the removal of the TDR designation based on payment activity for consumer loans. A loan may be returned to accrual status when all contractually due interest and principal has been paid and the borrower demonstrates the financial capacity to continue to pay as agreed, with the risk of loss diminished. During the 2015 third quarter, Huntington transferred $96.8 million of home equity TDRs from loans to loans held for sale in anticipation of a sale.

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

Table 17 - Troubled Debt Restructured Loan Activity
(dollar amounts in thousands)

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
TDRs, beginning of period	$ 1,129,714	$ 1,038,673	$ 987,428	$ 962,877	$ 988,737
New TDRs	231,991	259,911	209,376	137,397	126,238
Payments	(117,822)	(64,468)	(35,272)	(51,908)	(78,717)
Charge-offs	(15,549)	(12,307)	(8,364)	(8,611)	(10,631)
Sales	(3,332)	(4,508)	(5,148)	(3,303)	(1,951)
Transfer to held-for-sale	(96,786)	—	—	—	—
Transfer to OREO	(2,278)	(3,383)	(2,369)	(2,978)	(3,554)
Restructured TDRs—accruing (1)	(96,336)	(61,570)	(85,700)	(26,350)	(47,277)
Restructured TDRs—nonaccruing (1)	(17,398)	(20,456)	(20,849)	(16,309)	(2,212)
Other	(7,438)	(2,178)	(429)	(3,387)	(7,756)
TDRs, end of period	$ 1,004,766	$ 1,129,714	$ 1,038,673	$ 987,428	$ 962,877

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

ACL

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

Our total credit reserve is comprised of two different components, both of which in our judgment are appropriate to absorb credit losses inherent in our loan and lease portfolio: the ALLL and the AULC. Combined, these reserves comprise the total ACL. Our 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, while reductions reflect charge-offs (net of recoveries), decreased risk levels resulting from loan risk-rating upgrades, or the sale of loans. The AULC is determined by applying the transaction reserve process to the unfunded portion of the loan exposures adjusted by an applicable funding expectation.

During the 2015 first quarter, we reviewed our existing commercial and consumer credit models and enhanced certain processes and methods of ACL estimation. During this review, we analyzed the loss emergence periods used for consumer receivables collectively evaluated for impairment and, as a result, extended our loss emergence periods for products within these portfolios. As part of these enhancements to our credit reserve process, we evaluated the methods used to separately estimate economic risks inherent in our portfolios and decided to no longer utilize these separate estimation techniques.

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Economic risks are now incorporated in our loss estimates elsewhere in our reserve calculation. The enhancements made to our credit reserve processes during the 2015 first quarter allow for increased segmentation and analysis of the estimated incurred losses within our loan portfolios. The net ACL impact of these enhancements was immaterial.
During the 2015 third quarter, we reviewed our existing commercial and consumer credit models and completed a periodic reassessment of certain ACL assumptions. Specifically, we updated our analysis of the loss emergence periods used for commercial receivables collectively evaluated for impairment. Based on our observed portfolio experience, we extended our loss emergence periods for the C&I portfolio and CRE portfolios. We also updated loss factors in our consumer home equity and residential mortgage portfolios based on more recently observed portfolio experience. The net ACL impact of these enhancements was immaterial.

We regularly evaluate the appropriateness of the ACL by performing on-going evaluations of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or other documented support. We evaluate the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet their financial obligations when quantifying our exposure to credit losses and assessing the appropriateness of our ACL at each reporting date. In addition to general economic conditions and the other factors described above, additional factors also considered include: the impact of increasing or decreasing residential real estate values; the diversification of CRE loans; the development of new or expanded Commercial business verticals such as healthcare, ABL, and energy. A provision for credit losses is recorded to adjust the ACL to the level we have determined to be appropriate to absorb credit losses inherent in our loan and lease portfolio.

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

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

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Table 18 - Allocation of Allowance for Credit Losses (1)
(dollar amounts in thousands)

	September 30, 2015			June 30, 2015			March 31, 2015			December 31, 2014			September 30, 2014		
Commercial															
Commercial and industrial	$284,329	40	%	$285,041	41	%	$284,573	42	%	$286,995	40	%	$291,401	40	%
Commercial real estate	109,967	11		92,060	11		100,752	11		102,839	11		115,472	11	
Total commercial	394,296	51		377,101	52		385,325	53		389,834	51		406,873	51	
Consumer															
Automobile	43,949	19		39,102	18		37,125	16		33,466	18		30,732	18	
Home equity	86,838	17		111,178	17		110,280	18		96,413	18		100,375	18	
Residential mortgage	42,794	12		51,679	12		55,380	12		47,211	12		52,658	12	
Other consumer	24,061	1		20,482	1		17,016	1		38,272	1		40,398	1	
Total consumer	197,642	49		222,441	48		219,801	47		215,362	49		224,163	49	
Total allowance for loan and lease losses	591,938	100	%	599,542	100	%	605,126	100	%	605,196	100	%	631,036	100	%
Allowance for unfunded loan commitments	64,223			55,371			54,742			60,806			55,449		
Total allowance for credit losses	$656,161			$654,913			$659,868			$666,002			$686,485		
Total allowance for loan and leases losses as % of:															
Total loans and leases		1.19	%		1.23	%		1.27	%		1.27	%		1.35	%
Nonaccrual loans and leases		1.66			1.65			1.66			2.02			1.94	
Nonperforming assets		1.55			1.51			1.51			1.79			1.73	
Total allowance for credit losses as % of:															
Total loans and leases		1.32	%		1.34	%		1.38	%		1.40	%		1.47	%
Nonaccrual loans and leases		1.84			1.80			1.81			2.22			2.11	
Nonperforming assets		1.72			1.65			1.65			1.97			1.88	

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

2015 Third Quarter versus 2014 Fourth Quarter

The $9.8 million, or 1%, decline in the ACL compared with December 31, 2014, was driven by:

- $14.2 million, or 37%, decline in the ALLL of the other consumer portfolio. The decline was primarily driven by our assessment of consumer overdraft reserve factors, and the impact of no longer utilizing separate qualitative methods to estimate economic risks inherent in our portfolios.
-

$9.6 million, or 10%, decline in the ALLL of the home equity portfolio. Continued improvement in the residential real estate market led to improved expected loss factors in the portfolio, along with no longer utilizing separate qualitative methods to estimate economic risks inherent in the portfolio. These reductions were partially offset by the extension of loss emergence periods utilized in the reserve factors for the portfolio.

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- $4.4 million, or 9%, decline in the ALLL of the residential mortgage portfolio. Continued improvement in the residential real estate market led to improved expected loss factors in the portfolio, along with no longer utilizing separate qualitative methods to estimate economic risks inherent in the portfolio. These reductions were partially offset by the extension of loss emergence periods utilized in the reserve factors for the portfolio.
- $2.7 million, or 1%, decline in the ALLL of the C&I portfolio. The decline was primarily driven by the decision to no longer utilize separate qualitative methods to estimate economic risks inherent in our portfolio, as well as improved performance on the Pass Graded portfolio over the past year. However, the impacts were largely offset by increases to our reserve factors for high dollar value C&I credits, along with extended loss emergence periods utilized in establishing the portfolio’s reserve factors.

Partially offset by:

- $10.5 million, or 31%, increase in the ALLL of the automobile portfolio. The increase was driven by growth in loan balances, along with the extension of loss emergence periods embedded within the portfolio’s reserve factors. It was partially offset by the impact of no longer utilizing separate qualitative methods to estimate economic risks inherent in our portfolio.
- $7.1 million, or 7%, increase in the ALLL of the CRE portfolio. The increase was driven by the extension of loss emergence periods utilized in the reserve factors, along with increases to our reserve factors of high dollar value CRE credits. However, the increases in allowances were largely offset by management’s decision to no longer utilize separate qualitative methods to estimate economic risks inherent in our portfolio.
- $3.4 million, or 6%, increase in the AULC driven primarily by an 6% increase in criticized unfunded exposures within the Commercial portfolios.

The ACL to total loans ratio declined to 1.32% at September 30, 2015, compared to 1.40% at December 31, 2014. Management believes the decline in the ratio is appropriate given the continued improvement in the risk profile of our loan portfolio. Further, the continued focus on early identification of loans with changes in credit metrics and proactive action plans for these loans, originating high quality new loans, and SAD resolutions is expected to contribute to maintaining our strong key credit quality metrics.

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

NCOs

Any loan in any portfolio may be charged-off prior to the policies described below if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency 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 at 90-days past due with the exception of administrative small ticket lease delinquencies. Automobile loans and other consumer loans are generally charged-off at 120-days past due. First-lien and junior-lien home equity loans are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due and 120-days past due, respectively. Residential mortgages are charged-off to the estimated fair value of the collateral, less anticipated selling costs, at 150-days past due.

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

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Table 19 - Quarterly Net Charge-off Analysis
(dollar amounts in thousands)

	Three months ended				
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Net charge-offs (recoveries) by loan and lease type (1):					
Commercial:					
Commercial and industrial	$9,858	$4,411	$11,403	$333	$12,587
Commercial real estate:					
Construction	(309)	164	(383)	(1,747)	2,171
Commercial	(13,512)	5,361	(3,629)	1,565	(8,178)
Commercial real estate	(13,821)	5,525	(4,012)	(182)	(6,007)
Total commercial	(3,963)	9,936	7,391	151	6,580
Consumer:					
Automobile	4,908	3,442	4,248	6,024	3,976
Home equity	5,869	4,650	4,625	6,321	6,448
Residential mortgage	2,010	2,142	2,816	3,059	5,428
Other consumer	7,339	5,205	5,352	7,420	7,591
Total consumer	20,126	15,439	17,041	22,824	23,443
Total net charge-offs	$16,163	$25,375	$24,432	$22,975	$30,023
Net charge-offs (recoveries)—annualized percentages:					
Commercial:					
Commercial and industrial	0.20 %	0.09 %	0.24 %	0.01 %	0.27 %
Commercial real estate:					
Construction	(0.11)	0.07	(0.17)	(0.85)	1.12
Commercial	(1.29)	0.51	(0.34)	0.15	(0.78)
Commercial real estate	(1.04)	0.43	(0.31)	(0.01)	(0.48)
Total commercial	(0.06)	0.16	0.12	—	0.11
Consumer:					
Automobile	0.22	0.17	0.19	0.28	0.20
Home equity	0.28	0.22	0.22	0.30	0.31
Residential mortgage	0.13	0.15	0.19	0.21	0.38
Other consumer	5.91	4.61	5.03	7.20	7.61
Total consumer	0.34	0.27	0.29	0.39	0.42
Net charge-offs as a % of average loans	0.13 %	0.21 %	0.20 %	0.20 %	0.26 %

(1) Amounts presented above exclude write-downs of $5.1 million in home equity loans for the three months ended September 30, 2015 and $2.3 million in automobile loans for the three months ended March 31, 2015 arising from transfers to loans held for sale.

The ALLL established is consistent with the level of risk associated with the original underwriting. As a part of our normal portfolio management process for commercial loans, the loan is periodically reviewed and the ALLL is increased or decreased based on the updated risk rating. In certain cases, the standard ALLL is determined to not be appropriate, and a specific reserve is established based on the projected cash flow or collateral value of the specific loan. Charge-offs, if necessary, are generally recognized in a period after the specific ALLL was established. If the previously established ALLL exceeds that necessary to satisfactorily resolve the problem loan, a reduction in the overall level of the ALLL could be recognized. Consumer loans are treated in much the same manner as commercial loans, with increasing reserve factors applied based on the risk characteristics of the loan, although specific reserves are not identified for consumer loans. In summary, if loan quality deteriorates, the typical credit sequence would be periods of reserve building, followed by periods of higher NCOs

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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.

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

2015 Third Quarter versus 2015 Second Quarter

NCOs were an annualized 0.13% of average loans and leases in the current quarter, a decline from 0.21% in the 2015 second quarter, and still below our long-term expectation of 0.35% - 0.55%. Commercial charge-offs decreased in the quarter, partially offset by an increase in the other consumer, automobile and home equity portfolios. Given the low level of C&I and CRE NCO's, there will continue to be some volatility on a quarter-to-quarter comparison basis.

The table below reflects NCO detail for the nine-month periods ended September 30, 2015 and 2014:

Table 20 - Year to Date Net Charge-off Analysis
(dollar amounts in thousands)

	Nine Months Ended September 30,			
	2015		2014	
Net charge-offs (recoveries) by loan and lease type (1):				
Commercial:				
Commercial and industrial	$25,672		$31,790	
Commercial real estate:				
Construction	(528	)	2,918	
Commercial	(11,780	)	(12,103	)
Commercial real estate	(12,308	)	(9,185	)
Total commercial	13,364		22,605	
Consumer:				
Automobile	12,598		11,544	
Home equity	15,144		30,626	
Residential mortgage	6,968		16,693	
Other consumer	17,896		20,184	
Total consumer	52,606		79,047	
Total net charge-offs	$65,970		$101,652	
Net charge-offs (recoveries) - annualized percentages:				
Commercial:				
Commercial and industrial	0.17	%	0.23	%
Commercial real estate:				
Construction	(0.07	)	0.56	
Commercial	(0.37	)	(0.38	)
Commercial real estate	(0.31	)	(0.25	)
Total commercial	0.07		0.13	
Consumer:				
Automobile	0.20		0.21	
Home equity	0.24		0.49	
Residential mortgage	0.16		0.40	
Other consumer	5.21		6.91	

Total consumer	0.30	0.48
Net charge-offs as a % of average loans	0.18 %	0.30 %

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(1) Amounts presented above exclude write-downs arising from transfers to loans held for sale.

2015 First Nine Months versus 2014 First Nine Months

NCOs decreased $35.7 million in the first nine-month period of 2015 to $66.0 million primarily as a result of continued credit quality improvement in the home equity and residential mortgage portfolios. Given the low level of C&I and CRE NCO's, there will continue to be some volatility on a period-to-period comparison basis.

Market Risk

Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, foreign exchange rates, equity prices, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk.

Interest Rate Risk

OVERVIEW

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

INCOME SIMULATION AND ECONOMIC VALUE ANALYSIS

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

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

Table 21 - Net Interest Income at Risk

	Net Interest Income at Risk (%)					
Basis point change scenario	-25		+100		+200	
Board policy limits	—	%	-2.0	%	-4.0	%
September 30, 2015	-0.2	%	0.4	%	0.2	%
December 31, 2014	-0.2	%	0.5	%	0.2	%

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

Huntington is within board of director policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The NII at Risk reported at September 30, 2015, shows that Huntington's earnings are not particularly sensitive to these types of changes in interest rates over the next year. In the recent period, while the amount of fixed rate assets, primarily auto loans and securities, increased, NII at Risk was not meaningfully impacted.

As of September 30, 2015, Huntington had $9.0 billion of notional value in receive fixed-generic asset conversion swaps used for asset and liability management purposes. These derivative instruments mature from 2015 through 2018, in the amount of $0.8 billion, $3.5 billion, $4.6 billion, and $0.1 billion, in each year, respectively.

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Table 22 - 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 %
September 30, 2015	-0.6 %	-0.6 %	-2.5 %
December 31, 2014	-0.6 %	0.4 %	-1.5 %

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

Huntington is within board of director policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the -25 basis point scenario. The EVE reported at September 30, 2015 shows that as interest rates increase (decrease) immediately, the economic value of equity position will decrease (increase). When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall. When interest rates rise, fixed rate liabilities generally increase economic value; the longer the duration, the greater the value gained. The opposite is true when interest rates fall. The EVE at risk reported as of September 30, 2015 for the +200 basis points scenario shows a more liability sensitive position compared with December 31, 2014. The primary factors contributing to this change were the growth of longer duration HQLA in preparation for LCR compliance and an increase in Automobile loans, offset somewhat by the growth of both Consumer and Commercial deposit balances.

MSRs

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

At September 30, 2015, we had a total of $153.5 million of capitalized MSRs representing the right to service $15.9 billion in mortgage loans. Of this $153.5 million, $18.1 million was recorded using the fair value method and $135.4 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 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 MSR fair value adjustments net of hedge-related trading activity in the mortgage banking income category of noninterest income. Changes in fair value between reporting dates are recorded as an increase or a decrease in mortgage banking income.

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

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, equity investments, and investments in securities backed by mortgage loans. We have established loss limits on the trading portfolio, on the amount of foreign exchange exposure that can be maintained, and on the amount of marketable equity securities that can be held by the insurance subsidiaries.

Liquidity Risk

Liquidity risk is the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments. Please see the Liquidity Risk section in Item 1A of our 2014 Form 10-K for more details. In addition, the mix and maturity structure of Huntington's balance sheet, the amount of on-hand cash, unencumbered securities, and the availability

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of contingent sources of funding can have an impact on Huntington's ability to satisfy current or future funding commitments. We manage liquidity risk at both the Bank and the parent company.

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

Investment Securities Portfolio

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

Table 23 - Expected Life of Investment Securities

	September 30, 2015			
	Available-for-Sale & Other Securities		Held-to-Maturity Securities	
(dollar amounts in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 year or less	$599,900	$592,247	$—	$—
After 1 year				