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COMPANY PROFILE

Huntington Bancshares Incorporated

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COMPANY OVERVIEW

Huntington Bancshares Incorporated (Huntington Bancshares) is a regional bank holding company. The bank through its subsidiaries provide commercial and retail banking, treasury management, wealth management, trust, brokerage, and insurance solutions. It also offers auto equipment finance and capital market and national settlement solutions, which are extended beyond its core operating states. The bank operates through a network of branch offices, ATMs, and online portals and caters to individual, SME, corporate, high net worth individual and wealthy families. It operates in the states of Kentucky, Ohio, Michigan, West Virginia, Pennsylvania, Wisconsin, Indiana, and Illinois. Huntington Bancshares is headquartered in Columbus, Ohio, the US.

The bank reported interest income of (US Dollars) US$3,433 million for the fiscal year ended December 2017 (FY2017), an increase of 30.4% over FY2016. The net interest income after loan loss provision of the bank was US$2,801 million in FY2017, compared to an operating profit of US$2,178.5 million in FY2016. In FY2017, the bank recorded a net margin of 34.5%, compared to a net margin of 27% in FY2016.

KEY FACTS

Head Office	Huntington Bancshares Incorporated 41 South High Street Columbus Ohio Columbus Ohio USA
Phone	1 614 4803594
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Web Address	www.huntington.com
Revenue / turnover (USD Mn)	4,740.0
Financial Year End	December
Employees	15,770
NASDAQ Ticker	HBAN

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SWOT ANALYSIS

Huntington Bancshares Incorporated (Huntington Bancshares) is a regional bank holding bank. Improved asset quality, net interest margin, cost efficiency, and non-interest income; and sound capital adequacy are a few of its key strengths, even as its litigation charge could be an area for improvement. Stiff competition, additional capital requirement, and prolonged low interest rate environment may affect the growth of the bank. However, emergence of fintech, growing cards and payment channel in the US, and strategic initiative may offer significant growth opportunities for the bank.

Strength	Weakness
Asset Quality Net Interest Margin Capital Adequacy Non-Interest Income Cost Efficiency	Litigation Charges
Opportunity	**Threat**
Emergence of FinTech Growing Cards and Payments Channel: The US Strategic Initiative	Prolonged Low-Interest-Rate Environment Additional Capital Requirements Competition

Strength

Asset Quality

Huntington Bancshares reported high quality of assets in FY2017, which ensures interest income from outstanding loans and leases. During the year, its non-performing assets (NPA) amounted to US$389 million from US$481 million, reflecting a decline of 19.1%. NPA as a percentage of total assets were 0.55%, as compared to 0.72% in the previous year. The ratio was better than the industry average of 0.72% The bank's non-performing loans and leases (NPL) declined by 17.5% to US$349 million from US$423 million in FY2016. NPL as a percentage of total loans and leases also improved to 0.5% from 0.63% in the previous year. It was better than the industrial average of 1.20%. Net charge-offs to average loans were 0.23%, as compared to 0.19% in the previous year. Allowance for loan losses as a percentage of NPLs stood at 60.74% from 39.95%, in the previous year, which stood below the industry average of 106.32%.

Net Interest Margin

Huntington Bancshares reported improvement in its net interest margin (NIM) in FY2017, which enhanced its net interest income. During the year, the NIM improved to 3.30%, as compared to 3.16% in the previous year. The ratio was above the industry average of 3.25%. The bank's net interest spread

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expanded to 3.13% from 3.02% in FY2016, due to increase in yield on average interest-earning assets and decrease in cost of interest bearing liabilities. The bank's yield on average earning assets grew by 3.77% from 3.5%; whereas the cost of interest-bearing liabilities stood at 0.64% from 0.48% in the previous year.

Capital Adequacy

Huntington Bancshares has a sound capital base ensuring capital adequacy to support its organic and in-organic growth with the secured and unsecured nature of its lending. Sound capital management and moderate risk weighted asset growth have enabled the bank to enhance its capital base. In FY2017, bank's total capital ratio, tier 1 capital ratio, common equity tier 1 capital ratio, and leverage ratio stood at 13.39%, 11.34%, 10.01%, and 9.09% respectively, as compared to 13.05%, 10.92%, 9.56%, and 8.7% respectively. However, the ratios were below the minimum requirement of 9.87%, 7.87%, 6.37%, and 4% respectively, as set by the Basel authorities.

Non-Interest Income

Improvement in the non-interest income (NII) of the bank in FY2017, enhanced its revenue. NII improved by 13.9% to US$1,307 million from US$1,148 million. NII is a key source of revenue for entities offering banking and financial solutions. NII improved due to increase in service chanrges and deposits accounts by 9%, cards and payment processing income by 21.9%, trust and investment management services by 26.8%, mortgage banking income by 2.3%, capital market fees by 26.7%, bank owned life insurance income by 15.5%, gain on sales of loans by 19.1%, and other income by 17.8%. However, NII as a percentage of net revenue declined to 30.33% from 32.64% in the previous year.

Cost Efficiency

Improvement in the cost efficiency of the bank in FY2017, enhanced its profitability. During the year, its cost efficiency ratio stood at 60.33%, as compared to 66.72% in the previous year. However, the efficiency ratio was marginally above the industry average of 57.94%. The ratio showcases non-interest expenses as a percentage of net revenue. The net revenue improved by 22.6% to US$4,313 million from US$3,519 million, due to improvement in net interest income by 26.7% and non-interest income by 14%. The non-interest expenses increased by 10.8% to US$2,602 million from US$2,348 million, which was due to rise in personal costs by 13%, outside data processing and other services by 2.6%, net occupancy by 38.6%, equipment cost by 3.6%, deposit and other insurance expenses by 44.4%, and other expenses by 25.5%.

Weakness

Litigation Charges

Involvement in legal issues could render the bank incur additional costs and affects its brand image. In this direction, in 2017, the bank agrees to pay US$15.9 million as a settlement for a case, wherein a law suit was filed against its subsidiary FirstMerit for exacerbate overdraft charges. The lawsuit stated these transactions occurred between March 16th, 2005 to August 13th, 2010. The settlement set up a cash

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settlement fund of US$8.9 million and debt forgiveness settlement fund of US$7 million. Also the debt forgiveness settlement fund is utilized mainly to pay lawyer costs and fees. The litigation also charged FirstMerit with engaging in reordering.

Opportunity

Emergence of FinTech

The bank could benefit from venturing into FinTech arena as it is fast changing the way banking is done and challenging the regulatory structure. FinTech innovations such as crowd-funding, mobile payments, distributed ledgers, peer-to-peer lending, and online marketplace lending are cost effective and giving tough competition to banking institutions. In response, banks are increasingly pursuing opportunities to establish FinTech capabilities through partnerships or strategic collaborations, venture funding, developing in-house capabilities, setting up business accelerators, and/or acquisitions. One of the prime examples, illustrating the FinTech focus, is the collective initiative of the world's leading 22 banks in developing blockchain-based international payments system in 2017. FinTech offers cost savings for banks facing margin pressures from low interest rates. They also have the potential to expand intermediation services to the underserved.

Growing Cards and Payments Channel: The US

The growing cards and payments channel in the US may provide growth opportunities for the bank. According to in-house report, the number of cards in circulation in the country is projected to reach 1,622.8 million in 2021, including debit cards to 857.3 million, credit cards to 736.8 million, and charge cards to 28.7 million. The transaction value of the channel is forecasted to grow to US$8,771.5 billion in 2021, including debit cards to US$4,253.3 billion, credit cards to US$4,085.1 billion, and charge cards to US$433.1 billion. The growth could be driven by increasing mobile payments, rise in e-commerce, increase in penetration of contactless terminals, and migration to Europay, Mastercard and Visa standards.

Strategic Initiative

Strategic initiatives support the bank to grow organically and enhance its operational capabilities. In this direction, in July 2017, the bank closed its call center in Michigan. Huntington Bancshares decided to close the business, due to its last year acquisition of Akron-based FirstMerit, which made some jobs irrelevant. This enabled the bank to emphasize on its other call centers located in Columbus, Flint, and Akron, which have the capability to handle Michigan’s work. It also supports it to reduce its operational costs.

Threat

Prolonged Low-Interest-Rate Environment

Prolonged low-interest-rate environment could pose significant challenges to a banking institution.

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According to an IMF research, lower interest rates may boost banks' earnings in the short-term. However, they adversely affect profitability in the steady state once they fall below a particular positive threshold. With flattened yield curves, if bank deposit rates cannot fall below zero, the profitability would be contracted further. In such a scenario, regional and deposit-funded banks are likely to be most adversely impacted. In order to enhance yield, larger banks would increase their risk exposures in other countries that offer higher returns and rely more on wholesale funding, whereas their smaller counterparts would take more interest rate risk by increasing the duration of bond portfolios. Prolonged challenging interest rate environment would result in consolidation of smaller banks.

Additional Capital Requirements

The challenge on bank solvency, as a result of highly leveraged balance sheets, prompted a regulatory response, which recommended an increase in capital. Basel III norms by Basel Committee on Banking Supervision are intended to protect the global banking industry from financial meltdowns. The new norms require banks to hold more and better quality capital, carry more liquid assets, and limit leverage. The norms will not only ensure banks to hold more capital on hand, which will limit the amount of money they can lend, but also reduce the risk of insolvency given many loan defaults.

Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a multi-year phase-in capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets. The capital conservation buffer, once fully phased-in, increases the target minimum Tier 1 common equity ratio to 7%, minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. The buffer requirement began in January 2016 and the banks are required to fully phase-in the buffer by January 2019 to avoid limitations on capital distributions and certain discretionary incentive compensation payments. In addition, Basel III introduces a counter cyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. Such regulations would render financial services companies to incur high costs, and exert increased pressure on banks, which are already in the process of improving their own governance processes.

Competition

The bank operates in a highly competitive banking and financial sector of the US. It faces stiff competition from domestic and foreign mortgage banking firms, credit unions, banks and financial service providers, automobile and equipment financing companies, insurance companies, investment advisors, mutual funds, and brokerage firms. A few of its key peers include Woodforest National Bank, PNC Bancorp, Inc., Nationwide Bank, Fifth Third Bancorp, and JP Morgan Chase Bank, National Association. It competes based on factors such as service quality, offering portfolio, fees charged, and market knowledge.

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