



## COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHANGE

### Key Metrics

HBAN - NASDAQ (as of 04/19/17)	\$12.59
Price Target	\$14.00
52-Week Range	\$8.05-\$14.74
Shares Outstanding (mm)	1,087.1
Market Cap. (\$mm)	\$13,687
3-Mo. Average Daily Volume (000)	10,944.8
Institutional Ownership	75.4%
Tangible Equity / Tangible Assets	9.5%
ROE	8.5%
Tangible Book Value Per Share	\$6.43
Price/Tangible Book Value	195.9%
Dividend Yield	2.5%
Price/LTM Earnings	18.8x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.21	\$0.22	\$0.21A	\$0.27	\$0.27
2Q	\$0.21	\$0.25	\$0.24	\$0.29	\$0.28
3Q	\$0.23	\$0.26	\$0.24	\$0.31	\$0.30
4Q	\$0.23	\$0.26	\$0.25	\$0.31	\$0.30
Year	\$0.87	\$0.98	\$0.94	\$1.18	\$1.15
P/E	14.5x		13.3x		11.0x

### Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.07	\$0.08A	14.3	\$0.09
2Q	\$0.07	\$0.08	14.3	\$0.09
3Q	\$0.07	\$0.08	14.3	\$0.09
4Q	\$0.08	\$0.09	12.5	\$0.11
Year	\$0.29	\$0.33	13.8	\$0.38

**Company Description** – *Huntington Bancshares Incorporated (HBAN) is a commercial banking organization headquartered in Columbus, OH. The company's footprint encompasses Ohio, Michigan, western Pennsylvania, West Virginia and central and northern Indiana. In addition to traditional banking services, Huntington offers insurance, trust, wealth management, investment brokerage service, capital markets services and a large indirect auto lending business that extends outside of its retail branch network.*

### Banks

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April 20, 2017

## Huntington Bancshares Incorporated

HBAN – NASDAQ – Neutral – 2

### NIM Continues to Expand; Reiterating Neutral Rating

- **Earnings Results:** Excluding merger-related expenses of \$0.04, HBAN reported 1Q17 operating EPS of \$0.21, which was \$0.01 below our estimate and in line with the Street consensus.
- **Positive Highlights:** Asset quality metrics improved. Nonperforming Assets/Assets decreased four bps to 0.68%, while the net charge-off ratio fell two bps to 0.24%. The provision for credit losses declined \$7.3 million linked-quarter (LQ) to \$67.6 million, but exceeded our estimate of \$58.2 million. The provision was impacted by technical issues discussed on the following page.  
Operating noninterest income fell 7.0% to \$312.5 million on a LQ basis primarily due to declines in deposit service charges, mortgage banking income and gain on sale of loans. However, results exceeded our projection for noninterest income of \$309.5 million.
- **Negative Highlights:** Net interest income declined 0.7% LQ to \$730.0 million as a 0.4% decrease in average earning assets and two fewer days in the quarter more than offset five bps of net interest margin expansion to 3.30%. We projected net interest income of \$734.8 million and a 3.26% margin.  
Operating noninterest expense rose 1.3% sequentially to \$636.4 million. We had modeled noninterest expense of \$628.2 million.  
End-of-period loans increased 0.2% LQ versus our estimate of 1.0%, while average loans were up 0.9%.
- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$0.94 and \$1.15 from \$0.98 and \$1.18, respectively. Given the uncertainties regarding regulatory and tax reform, we are reducing our price target by \$1.00 to \$14.00 and maintaining our Neutral rating.

**Note Important Disclosures on pages 5 and 6**  
**Note Analyst Certification on page 5**

**OTHER TAKEAWAYS & VALUATION**

- As mentioned in the previous page, the loan loss provision was impacted by purchase accounting ramifications. As FirstMerit loans are renewed and roll off purchase accounting, reserves are allocated for such loans. We expect this impact to dissipate over time.
- The LQ increase in the NIM was driven by a 10 bp improvement in the yield on average earning assets partially offset by a six basis point increase in funding costs. Purchase accounting accretion aided the margin by 16 bps in Q1. Excluding purchase accounting adjustments, the core NIM improved seven bps to 3.14%.
- In February, Huntington successfully completed substantially all of the systems conversions related to the FirstMerit acquisition. The company consolidated 110 branches during the quarter, of which 101 were related to the FirstMerit deal. HBAN is on track to realize all of the targeted \$255 million in annual expense reductions by the end of 3Q17.
- Management reiterated guidance for full year 2017 revenue and average balance sheet in excess of 20%. On an end-of-period basis, HBAN expects loan growth of 4% to 6%. We modeled 4.5% loan growth in 2017.
- Management stated that it is comfortable with the company's exposure to the retail sector. Approximately \$1.7 billion of HBAN's secured commercial real estate portfolio is to retail projects. Huntington has approximately \$600 million in loans outstanding to REITs, of which \$250 million is regional mall exposure with the remainder to anchored strip centers. Approximately \$1 billion is outstanding to retail in the C&I portfolio.
- Net charge-offs are expected to remain below the company's stated long-term expectations of 35-55 bps.
- Our price target is derived through our discounted dividend model and the application of the stock's historical forward multiple of approximately 13X to our 2Q18-1Q19 EPS estimates.
- Major model assumptions include one additional Fed rate hike this year and another next year, continued flattening of the yield curve, slower loan growth in 2017 and a 28% corporate tax rate in 2018.

**SUITABILITY**

Our suitability rating on HBAN is 2 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

**RISK FACTORS**

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in relatively few states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.

- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company’s financial statements for a further discussion of risks and considerations.

	HUNTINGTON BANCSHARES, INC.										HBAN: NEUTRAL				
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 E	3Q17 E	4Q17 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E
Millions, Except for Per Share Data															
<b>Balance Sheet Data:</b>															
Assets	72,645.0	73,954.0	100,765.4	99,714.1	100,045.5	100,945.9	102,399.5	103,874.1	71,044.6	99,714.1	103,874.1	110,791.3	40.4%	4.2%	6.7%
Gross Loans	52,107.0	53,330.4	69,719.0	67,474.9	67,616.5	68,292.7	69,385.4	70,495.5	50,815.7	67,474.9	70,495.5	74,452.8	32.8%	4.5%	5.6%
Average Earning Assets	66,234.0	67,863.0	79,687.0	91,463.0	91,139.0	91,277.7	92,346.8	93,676.5	63,004.2	76,237.2	92,110.0	97,277.1	21.0%	20.8%	5.6%
Deposits	55,628.8	55,043.5	77,405.1	75,607.7	77,422.5	78,119.3	79,244.2	80,385.3	55,295.0	75,607.7	80,385.3	85,738.4	36.7%	6.3%	6.7%
Equity	6,395.0	6,536.0	9,315.5	9,236.9	9,365.9	9,501.5	9,646.1	9,826.6	6,208.3	9,236.9	9,826.6	10,562.1	48.8%	6.4%	7.5%
<b>Statement of Operations:</b>															
FTE Net Interest Income	512.2	516.0	636.0	747.5	742.0	750.9	762.6	778.6	1,982.9	2,411.7	3,034.2	3,208.3	21.6%	25.8%	5.7%
Net Interest Income	503.1	505.9	625.4	735.0	730.0	738.7	750.2	766.0	1,950.7	2,369.3	2,984.9	3,156.2	21.5%	26.0%	5.7%
Provision for Credit Losses	27.6	24.5	63.8	74.9	67.6	64.4	65.7	67.7	100.0	190.8	265.5	298.5	90.9%	39.2%	12.4%
Non-Interest Income:															
Deposit Service Charges	70.3	75.6	86.8	91.6	83.4	90.0	90.3	90.7	280.3	324.3	354.4	363.3	15.7%	9.3%	2.5%
Mortgage Banking	18.5	31.6	40.6	37.5	31.7	42.3	39.7	34.1	111.9	128.3	147.9	162.7	14.7%	15.3%	10.1%
Trust Services	22.8	22.5	28.9	34.0	33.9	34.2	34.5	34.9	105.8	108.3	137.5	146.7	2.3%	27.0%	6.7%
Insurance Income	16.2	15.9	15.9	16.5	15.3	16.1	16.0	16.7	65.3	64.5	64.0	67.2	-1.1%	-0.7%	5.0%
Brokerage Income	15.5	14.6	14.7	17.0	15.8	15.9	16.0	16.1	60.2	61.8	63.6	65.4	2.7%	2.9%	2.7%
BOLI	13.5	12.5	14.5	17.1	17.5	17.5	17.5	17.5	52.4	57.6	70.2	70.2	9.9%	21.9%	0.0%
Capital Markets Fees	13.0	13.0	14.8	18.7	14.2	15.5	15.8	16.1	53.6	59.5	61.6	77.5	11.0%	3.5%	25.8%
Gain on Sales of Loans	5.4	9.3	7.5	25.0	12.8	7.5	7.5	7.5	33.0	47.2	35.3	32.0	42.7%	-25.1%	-9.4%
Other	66.6	75.4	80.9	78.7	87.9	88.7	90.0	91.3	275.4	301.5	357.9	376.0	9.5%	18.7%	5.1%
Securities Gains	0.0	0.7	1.0	1.8	0.0	0.0	0.0	0.0	0.7	(0.1)	(0.0)	0.0	-111.3%	-90.5%	-100.0%
Total Non-Interest Income	241.9	271.1	305.6	334.3	312.5	327.8	327.4	324.9	1,038.7	1,152.9	1,292.5	1,361.1	11.0%	12.1%	5.3%
Non-Core Adjustment	0.0	-0.2	-1.0	1.8	-2.2	0.0	0.0	0.0	(0.7)	0.1	(2.2)	0.0	-111.3%	-2709.5%	-100.0%
Adjusted Non-Interest Income	241.9	270.5	304.5	336.1	310.3	327.8	327.4	324.9	1,038.0	1,153.0	1,290.3	1,361.1	11.1%	11.9%	5.5%
Non-Interest Expense:															
Salaries & Benefits	285.4	298.9	405.0	359.8	382.0	369.1	365.0	364.9	1,122.2	1,349.1	1,481.0	1,492.4	20.2%	9.8%	0.8%
Outside Services	61.9	63.0	91.1	88.7	87.2	73.9	74.4	75.0	231.4	304.7	310.4	305.5	31.7%	1.9%	-1.6%
Occupancy	31.5	30.7	41.5	49.5	67.7	39.7	39.9	40.1	121.9	153.1	187.5	162.6	25.6%	22.5%	-13.3%
Equipment	32.6	31.8	40.8	59.7	46.7	36.4	36.6	36.9	124.9	164.8	156.6	150.4	32.0%	-5.0%	-4.0%
Marketing	12.3	14.8	14.4	21.5	13.9	16.0	16.1	16.2	52.2	63.0	62.3	63.7	20.5%	-1.1%	2.2%
Deposit & Other Insurance	11.2	12.2	14.9	15.8	20.0	20.2	20.5	20.8	44.6	54.1	81.5	79.8	21.2%	50.5%	-2.0%
Intangible Amortization	3.7	3.6	9.0	14.1	13.9	13.7	13.6	13.4	27.9	30.5	54.6	51.8	9.3%	79.4%	-5.2%
Professional Services	13.5	21.5	47.1	23.2	18.3	12.2	12.3	12.4	50.3	105.3	55.3	50.6	109.4%	-47.5%	-8.4%
Other	39.0	47.1	48.3	49.4	57.1	46.6	46.9	47.3	200.6	183.9	197.9	192.7	-8.3%	7.6%	-2.6%
Total Non-Interest Expense	491.1	523.7	712.2	681.5	706.9	627.8	625.4	627.0	1,975.9	2,408.5	2,587.1	2,549.4	21.9%	7.4%	-1.5%
Non-Core Adjustment	-5.0	-21.0	-159.0	-53.4	-73.3	0.0	0.0	0.0	(58.0)	(238.4)	(73.3)	0.0	311.0%	-69.3%	-100.0%
Adjusted Non-Interest Expense	486.1	502.7	553.2	628.1	633.6	627.8	625.4	627.0	1,917.9	2,170.1	2,513.8	2,549.4	13.1%	15.8%	1.4%
Pretax Income	231.3	249.2	312.9	368.1	339.0	374.3	386.5	396.1	970.9	1,161.4	1,495.9	1,669.3	19.6%	28.8%	11.6%
Income Taxes	56.7	61.4	80.0	93.3	84.2	93.3	96.5	98.9	240.7	291.4	372.9	324.9	21.1%	36.0%	-12.9%
Preferred Dividends	8.0	19.9	18.5	18.9	18.9	18.9	18.9	18.9	31.9	31.9	75.5	75.5	0.1%	136.7%	0.0%
Common Operating Net Income	166.6	167.9	214.3	256.0	236.0	262.1	271.1	278.3	698.3	804.7	1,047.5	1,266.9	15.2%	30.2%	21.1%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.20	0.19	0.11	0.20	0.17	0.24	0.24	0.25	0.81	0.71	0.90	1.15	-12.7%	27.8%	27.1%
Operating EPS	0.21	0.21	0.23	0.23	0.21	0.24	0.24	0.25	0.85	0.87	0.94	1.15	1.8%	8.5%	21.5%
Dividends Per Share	0.07	0.07	0.07	0.08	0.08	0.08	0.08	0.09	0.25	0.29	0.33	0.38	16.0%	13.8%	15.2%
Tangible Book Value	7.10	7.27	6.34	6.30	6.43	6.56	6.71	6.89	6.89	6.30	6.89	7.70	-8.5%	9.3%	11.8%
Common Shares Outstanding	796,689	799,154	1,084,783	1,085,689	1,087,120	1,087,120	1,087,120	1,087,120	794,929	1,085,689	1,087,120	1,075,120	36.6%	0.1%	-1.1%
Average Diluted Shares	808,349	810,371	952,081	1,104,358	1,108,617	1,109,363	1,109,363	1,109,363	817,226	917,935	1,109,176	1,106,363	12.3%	20.8%	-0.3%
<b>Key Financial Statistics:</b>															
Return on Assets	0.96%	0.95%	0.58%	0.95%	0.83%	1.12%	1.13%	1.14%	1.01%	0.86%	1.06%	1.25%	(15)	19	20
Return on Common Equity	10.40%	9.58%	5.44%	9.41%	8.09%	11.14%	11.34%	11.34%	10.77%	8.72%	10.45%	12.41%	(205)	173	196
Net Interest Margin	3.11%	3.06%	3.18%	3.25%	3.30%	3.30%	3.28%	3.30%	3.15%	3.16%	3.29%	3.30%	2	13	0
Operating Non-Int. Inc./Operating Rev.	32.47%	34.84%	32.75%	31.36%	29.83%	30.73%	30.38%	30.73%	34.73%	30.18%	30.18%	30.13%	(200)	(255)	(5)
Efficiency Ratio	64.76%	63.26%	59.15%	57.53%	58.32%	56.92%	56.13%	55.61%	63.05%	61.20%	56.75%	54.69%	(185)	(446)	(206)
Tangible Common Ratio	7.87%	7.94%	7.00%	7.03%	7.15%	7.24%	7.37%	7.37%	7.79%	7.03%	7.37%	7.63%	(76)	(34)	25
NCOs/Average Loans	0.07%	0.13%	0.26%	0.25%	0.23%	0.25%	0.28%	0.30%	0.18%	0.18%	0.26%	0.33%	(0)	9	6

Source: Company reports and Hilliard Lyons estimates.

*Additional information is available upon request.*

### **Analyst Certification**

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Huntington Bancshares is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services and Hilliard Lyons received compensation for those services.

Hilliard Lyons participated as an underwriter of an offering of securities of Huntington Bancshares in the past 12 months.

Hilliard Lyons has received investment banking compensation from Huntington Bancshares in the past 12 months.

### **Definitions of Ratings:**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

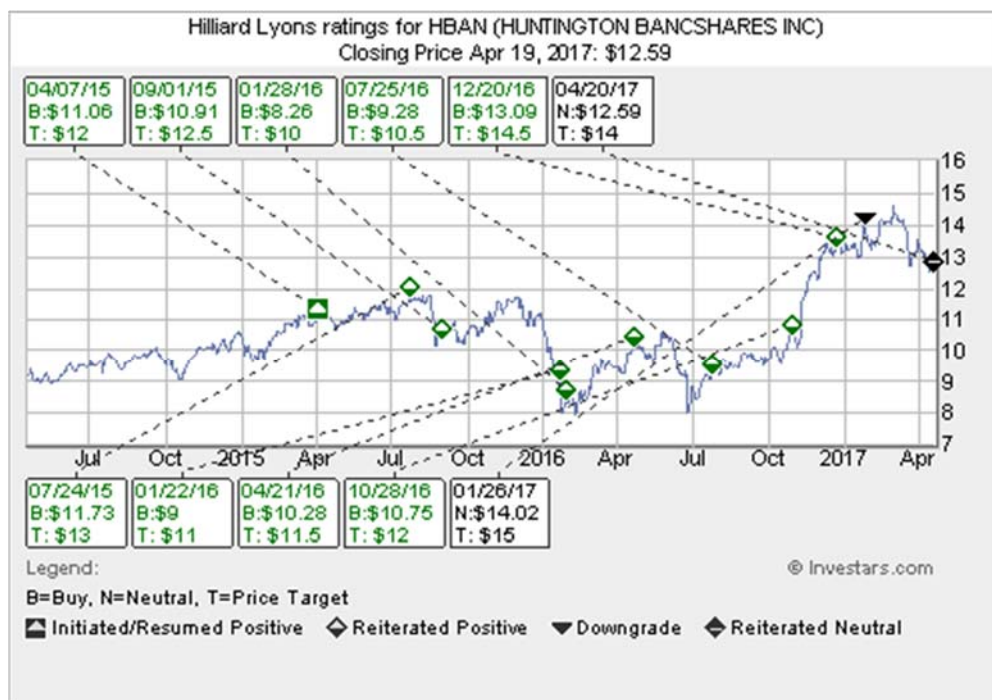
### **Definitions of Suitabilities:**

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

**Other Disclosures**

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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