HUNTINGTON BANCSHARES INC/MD
Form 10-Q
April 29, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
QUARTERLY PERIOD ENDED March 31, 2019
Commission File Number 1-34073
Huntington Bancshares Incorporated

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

Registrant's address: 41 South High Street, Columbus, Ohio 43287
Registrant’s telephone number, including area code: (614) 480-2265
Securities registered pursuant to Section 12(b) of the Act:

Title of class	Trading Symbol(s)	Name of exchange on which registered
5.875% Series C Non-Cumulative, perpetual preferred stock	HBANN	Nasdaq
6.250% Series D Non-Cumulative, perpetual preferred stock	HBANO	Nasdaq
Common Stock—Par Value $0.01 per Share	HBAN	Nasdaq

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 every Interactive Data File required to be submitted 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 such files). x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
¨ Yes x No
There were 1,046,440,116 shares of the Registrant’s common stock ($0.01 par value) outstanding on March 31, 2019.

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Glossary of Acronyms and Terms

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

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

OREO	Other Real Estate Owned
OTTI	Other-Than-Temporary Impairment

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RBHPCG	Regional Banking and The Huntington Private Client Group
ROC	Risk Oversight Committee
SBA	Small Business Administration
SEC	Securities and Exchange Commission
TDR	Troubled Debt Restructuring
U.S. Treasury	U.S. Department of the Treasury
UCS	Uniform Classification System
VIE	Variable Interest Entity
XBRL	eXtensible Business Reporting Language

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PART I. FINANCIAL INFORMATION

When we refer to “we”, “our”, and “us”, "Huntington," and "the Company" in this report, we mean Huntington Bancshares Incorporated and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, Huntington Bancshares Incorporated. When we refer to the “Bank” in this report, we mean our only bank subsidiary, The Huntington National Bank, and its subsidiaries.

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

We are a multi-state diversified regional bank holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through the Bank, we have over 150 years of servicing the financial needs of our customers. Through our subsidiaries, we provide full-service commercial and consumer banking services, mortgage banking services, automobile financing, recreational vehicle and marine financing, equipment financing, investment management, trust services, brokerage services, insurance products and services, and other financial products and services. Our 898 full-service branches and private client group offices are located in Ohio, Illinois, Indiana, Kentucky, Michigan, Pennsylvania, West Virginia, and Wisconsin. Select financial services and other activities are also conducted in various other states. International banking services are available through the headquarters office in Columbus, Ohio. Our foreign banking activities, in total or with any individual country, are not significant.

This MD&A provides information we believe necessary for understanding our financial condition, changes in financial condition, results of operations, and cash flows. The MD&A included in our 2018 Form 10-K should be read in conjunction with this MD&A as this discussion provides only material updates to the 2018 Form 10-K. This MD&A should also be read in conjunction with the Unaudited Condensed Consolidated Financial Statements, Notes to Unaudited Condensed Consolidated Financial Statements, and other information contained in this report.

EXECUTIVE OVERVIEW

Summary of 2019 First Quarter Results Compared to 2018 First Quarter

For the quarter, we reported net income of $358 million, or $0.32 per common share, compared with $326 million, or $0.28 per common share, in the year-ago quarter (see Table 1).

Fully-taxable equivalent net interest income was $829 million, up $52 million, or 7%. This reflected the benefit from the $3.8 billion, or 4%, increase in average earning assets coupled with a 9 basis point increase in the FTE net interest margin to 3.39%.

The provision for credit losses increased $1 million year-over-year to $67 million in the 2019 first quarter. Net charge-offs increased $33 million to $71 million. The increase was centered in two specific commercial credit relationships. Consumer charge-offs have remained consistent over the past year. NCOs represented an annualized 0.38% of average loans and leases in the current quarter, up from 0.21% in the year-ago quarter.

Non-interest income was $319 million, up $5 million, or 2%, from the year ago quarter. Gain on sale of loans and leases increased $5 million, or 63%, primarily reflecting the gain on the sale of asset finance leases and higher SBA sales. Mortgage banking income decreased $5 million, or 19%, primarily reflecting net mortgage servicing rights (MSR) risk management-related activities and lower origination volume.

Non-interest expense was $653 million, up $20 million, or 3%, from the year-ago quarter. Personnel costs increased $18 million, or 5%, primarily reflecting strategic hiring, the implementation of annual merit increases in the 2018 second quarter, and increased benefits costs. Outside data processing and other services increased $8 million, or 11%, primarily driven by higher technology investment costs. Deposit and other insurance expense decreased $10 million, or 56%, due to the discontinuation of the FDIC surcharge in the 2018 fourth quarter.

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The tangible common equity to tangible assets ratio was 7.57% at March 31, 2019, down 13 basis points from a year ago. Common Equity Tier 1 risk-based capital ratio was 9.84%, down from 10.45% a year ago. The regulatory Tier 1 risk-based capital ratio was 11.25% compared to 11.94% at March 31, 2018. All capital ratios were impacted by the repurchase of $916 million of common stock over the last four quarters.

The Company repurchased $25 million of common stock during the 2019 first quarter at an average cost of $13.64 per share. There is $152 million of share repurchase authorization remaining under the 2018 Capital Plan.

Business Overview

General

Our general business objectives are:

•Consistent organic revenue and balance sheet growth.

•Invest in our businesses, particularly technology and risk management.

•Deliver positive operating leverage.

•Maintain aggregate moderate-to-low risk appetite.

•Disciplined capital management.

Economy

Overall economic activity in our footprint continues to reflect a favorable outlook for both consumers and businesses. Our balance sheet growth expectations for 2019 remain unchanged. Our commercial loan pipelines are steady, and we are seeing the normal seasonal build in our consumer pipelines. Competition for loans and deposits is strong, but rational. We do not foresee a recession in the near term; however, our core earnings power, strong capital, aggregate moderate-to-low risk appetite, and long-term strategic alignment position us to withstand economic headwinds.

DISCUSSION OF RESULTS OF OPERATIONS

This section provides a review of financial performance from a consolidated perspective. 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

	Three Months Ended				
(dollar amounts in millions, share amounts in thousands)	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Interest income	$1,070	$1,056	$1,007	$972	$914
Interest expense	248	223	205	188	144
Net interest income	822	833	802	784	770
Provision for credit losses	67	60	53	56	66
Net interest income after provision for credit losses	755	773	749	728	704
Service charges on deposit accounts	87	94	93	91	86
Card and payment processing income	56	58	57	56	53
Trust and investment management services	44	42	43	42	44
Mortgage banking income	21	23	31	28	26
Capital markets fees	22	34	26	26	21
Insurance income	21	21	19	21	21
Bank owned life insurance income	16	16	19	17	15
Gain on sale of loans and leases	13	16	16	15	8
Securities gains (losses)	—	(19)	(2)	—	—
Other income	39	44	40	40	40
Total noninterest income	319	329	342	336	314
Personnel costs	394	399	388	396	376
Outside data processing and other services	81	83	69	69	73
Net occupancy	42	70	38	35	41
Equipment	40	48	38	38	40
Deposit and other insurance expense	8	9	18	18	18
Professional services	12	17	17	15	11
Marketing	7	15	12	18	8
Amortization of intangibles	13	13	13	13	14
Other expense	56	57	58	50	52
Total noninterest expense	653	711	651	652	633
Income before income taxes	421	391	440	412	385
Provision for income taxes	63	57	62	57	59
Net income	358	334	378	355	326
Dividends on preferred shares	19	19	18	21	12
Net income applicable to common shares	$339	$315	$360	$334	$314
Average common shares—basic	1,046,995	1,054,460	1,084,536	1,103,337	1,083,836
Average common shares—diluted	1,065,638	1,073,055	1,103,740	1,122,612	1,124,778
Net income per common share—basic	$0.32	$0.30	$0.33	$0.30	$0.29
Net income per common share—diluted	0.32	0.29	0.33	0.30	0.28
Return on average total assets	1.35 %	1.25 %	1.42 %	1.36 %	1.27 %
Return on average common shareholders' equity	13.8	12.9	14.3	13.2	13.0
Return on average tangible common shareholders' equity (1)	18.3	17.3	19.0	17.6	17.5
Net interest margin (2)	3.39	3.41	3.32	3.29	3.30
Efficiency ratio (3)	55.8	58.7	55.3	56.6	56.8
Effective tax rate	15.0	14.6	14.1	13.8	15.3

Revenue—FTE					
Net interest income	$822	$833	$802	$784	$770
FTE adjustment	7	8	8	7	7
Net interest income (2)	829	841	810	791	777
Noninterest income	319	329	342	336	314
Total revenue (2)	$1,148	$1,170	$1,152	$1,127	$1,091

(1) Net income excluding expense for amortization of intangibles for the period divided by average tangible common shareholders' equity. Average tangible common shareholders' equity equals average total common shareholders' equity less average intangible assets and goodwill. Expense for amortization of intangibles and average intangible assets are net of deferred tax liability, and calculated assuming a 21% tax rate.

(2) On an FTE basis assuming a 21% tax rate.

(3) 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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Net Interest Income / Average Balance Sheet

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

Table 2 - Consolidated Average Balance Sheet and Net Interest Margin Analysis

	Average Balances					Change	
	Three Months Ended						
	March 31,	December 31,	September 30,	June 30,	March 31,	1Q19 vs. 1Q18	
(dollar amounts in millions)	2019	2018	2018	2018	2018	Amount	Percent
Assets:							
Interest-bearing deposits in Federal Reserve Bank (2)	$501	$483	$—	$—	$—	$501	100 %
Interest-bearing deposits in banks	109	97	83	$84	90	19	21
Securities:							
Trading account securities	138	131	82	82	87	51	59
Available-for-sale securities:							
Taxable	10,752	10,351	10,469	10,832	11,158	(406)	(4)
Tax-exempt	3,048	3,176	3,496	3,554	3,633	(585)	(16)
Total available-for-sale securities	13,800	13,527	13,965	14,386	14,791	(991)	(7)
Held-to-maturity securities—taxable	8,653	8,433	8,560	8,706	8,877	(224)	(3)
Other securities	536	565	567	599	605	(69)	(11)
Total securities	23,127	22,656	23,174	23,773	24,360	(1,233)	(5)
Loans held for sale	700	694	745	619	478	222	46
Loans and leases: (4)							
Commercial:							
Commercial and industrial	30,546	29,557	28,870	28,863	28,243	2,303	8
Commercial real estate:							
Construction	1,174	1,138	1,132	1,126	1,189	(15)	(1)
Commercial	5,686	5,806	6,019	6,233	6,142	(456)	(7)
Commercial real estate	6,860	6,944	7,151	7,359	7,331	(471)	(6)
Total commercial	37,406	36,501	36,021	36,222	35,574	1,832	5
Consumer:							
Automobile	12,361	12,423	12,368	12,271	12,100	261	2
Home equity	9,641	9,817	9,873	9,941	10,040	(399)	(4)
Residential mortgage	10,787	10,574	10,236	9,624	9,174	1,613	18
RV and marine	3,296	3,216	3,016	2,667	2,481	815	33
Other consumer	1,284	1,291	1,237	1,162	1,115	169	15
Total consumer	37,369	37,321	36,730	35,665	34,910	2,459	7
Total loans and leases	74,775	73,822	72,751	71,887	70,484	4,291	6
Allowance for loan and lease losses	(780)	(777)	(759)	(742)	(709)	(71)	(10)
Net loans and leases	73,995	73,045	71,992	71,145	69,775	4,220	6
Total earning assets	99,212	97,752	96,753	96,363	95,412	3,800	4
Cash and due from banks	853	909	1,330	1,283	1,217	(364)	(30)
Intangible assets	2,265	2,288	2,305	2,318	2,332	(67)	(3)
All other assets	5,961	5,705	5,726	5,599	5,596	365	7
Total assets	$107,511	$105,877	$105,355	$104,821	$103,848	$3,663	4 %
Liabilities and Shareholders’ Equity:							
Deposits:							
Demand deposits—noninterest-bearing	19,938	20,384	20,230	20,382	20,572	$(634)	(3)%
Demand deposits—interest-bearing	19,770	19,860	19,553	19,121	18,630	1,140	6

Total demand deposits	39,708	40,244	39,783	39,503	39,202	506	1
Money market deposits	22,935	22,595	21,547	20,943	20,678	2,257	11
Savings and other domestic deposits	10,338	10,534	11,434	11,146	11,219	(881)	(8)
Core certificates of deposit	6,052	5,705	4,916	3,794	2,293	3,759	164
Total core deposits	79,033	79,078	77,680	75,386	73,392	5,641	8
Other domestic time deposits of $250,000 or more	335	346	285	243	247	88	36
Brokered deposits and negotiable CDs	3,404	3,507	3,533	3,661	3,307	97	3
Total deposits	82,772	82,931	81,498	79,290	76,946	5,826	8
Short-term borrowings	2,320	1,006	1,732	3,082	5,228	(2,908)	(56)
Long-term debt	8,979	8,871	8,915	9,225	8,958	21	—
Total interest-bearing liabilities	74,133	72,424	71,915	71,215	70,560	3,573	5
All other liabilities	2,284	2,180	2,054	1,891	1,861	423	23
Shareholders’ equity	11,156	10,889	11,156	11,333	10,855	301	3
Total liabilities and shareholders’ equity	$107,511	$105,877	$105,355	$104,821	$103,848	$3,663	4 %

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Table 2 - Consolidated Average Balance Sheet and Net Interest Margin Analysis (Continued)

	Average Yield Rates (3)				
	Three Months Ended				
Fully-taxable equivalent basis (1)	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Assets:					
Interest-bearing deposits in Federal Reserve Bank (2)	2.40 %	2.33 %	— %	— %	— %
Interest-bearing deposits in banks	1.75	1.97	1.95	1.95	1.97
Securities:					
Trading account securities	2.03	1.94	0.26	0.23	0.15
Available-for-sale securities:					
Taxable	2.82	2.71	2.61	2.63	2.51
Tax-exempt	3.69	4.12	3.53	3.35	3.18
Total available-for-sale securities	3.01	3.04	2.84	2.81	2.67
Held-to-maturity securities—taxable	2.52	2.45	2.43	2.42	2.45
Other securities	4.51	4.24	4.58	4.58	3.98
Total securities	2.86	2.84	2.73	2.71	2.62
Loans held for sale	4.07	4.04	4.45	4.17	3.82
Loans and leases: (4)					
Commercial:					
Commercial and industrial	4.91	4.81	4.64	4.52	4.28
Commercial real estate:					
Construction	5.58	5.47	5.31	5.26	4.73
Commercial	5.00	4.99	4.63	4.58	4.24
Commercial real estate	5.10	5.07	4.74	4.68	4.32
Total commercial	4.94	4.86	4.66	4.55	4.29
Consumer:					
Automobile	3.95	3.88	3.75	3.63	3.56
Home equity	5.61	5.45	5.21	5.09	4.90
Residential mortgage	3.86	3.82	3.78	3.69	3.66
RV and marine	4.96	5.10	5.06	5.11	5.11
Other consumer	13.07	12.35	12.16	11.90	11.78
Total consumer	4.75	4.67	4.54	4.43	4.34
Total loans and leases	4.85	4.76	4.60	4.49	4.32
Total earning assets	4.43	4.34	4.16	4.07	3.91
Liabilities:					
Deposits:					
Demand deposits—noninterest-bearing	—	—	—	—	—
Demand deposits—interest-bearing	0.56	0.48	0.45	0.38	0.29
Total demand deposits	0.28	0.24	0.22	0.18	0.14
Money market deposits	1.04	0.91	0.77	0.60	0.45
Savings and other domestic deposits	0.23	0.23	0.24	0.21	0.20
Core certificates of deposit	2.11	2.00	1.82	1.56	1.01
Total core deposits	0.85	0.75	0.65	0.51	0.36
Other domestic time deposits of $250,000 or more	1.82	1.67	1.40	1.01	0.69
Brokered deposits and negotiable CDs	2.38	2.22	1.98	1.81	1.47
Total deposits	0.94	0.84	0.73	0.59	0.43

Short-term borrowings	2.41	2.49	1.98	1.82	1.47
Long-term debt	3.98	3.82	3.78	3.75	2.92
Total interest-bearing liabilities	1.35	1.23	1.13	1.05	0.82
Net interest rate spread	3.08	3.11	3.03	3.02	3.09
Impact of noninterest-bearing funds on margin	0.31	0.30	0.29	0.27	0.21
Net interest margin	3.39 %	3.41 %	3.32 %	3.29 %	3.30 %

(1) FTE yields are calculated assuming a 21% tax rate.
(2) Deposits in Federal Reserve Bank were treated as non-earning assets prior to 4Q 2018.
(3) Loan and lease and deposit average yield rates include impact of applicable derivatives, non-deferrable fees, and amortized fees.
(4) For purposes of this analysis, NALs are reflected in the average balances of loans.

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2019 First Quarter versus 2018 First Quarter

FTE net interest income for the 2019 first quarter increased $52 million, or 7%, from the 2018 first quarter. This reflected the benefit from the $3.8 billion, or 4%, increase in average earning assets coupled with a 9 basis point increase in the NIM to 3.39%. Average earning asset yields increased 52 basis points year-over-year, driven by a 53 basis point improvement in loan yields. Average interest-bearing liability costs increased 53 basis points, primarily driven by a 51 basis point increase in average interest-bearing deposit costs. The cost of short-term borrowings and long-term debt increased 94 basis points and 106 basis points, respectively. The benefit from noninterest-bearing funds improved 10 basis points versus the year-ago quarter. Embedded within these yields and costs, FTE net interest income during the 2019 first quarter included $15 million, or approximately 6 basis points, of purchase accounting impact compared to $19 million, or approximately 8 basis points, in the year-ago quarter.

Average earning assets for the 2019 first quarter increased $3.8 billion, or 4%, from the year-ago quarter, primarily reflecting a $4.3 billion, or 6%, increase in average loans and leases. Average C&I loans increased $2.3 billion, or 8%, reflecting growth in corporate banking, asset finance, dealer floorplan, and middle market banking. Average residential mortgage loans increased $1.6 billion, or 18%, driven by the successful expansion of our home lending business over the past two years. Average RV and marine loans increased $0.8 billion, or 33%, primarily reflecting the success of the geographic expansion over the past two years, while maintaining our commitment to super prime originations. Held-for-sale and other earning assets increased $0.7 billion, or 131%, primarily due to the inclusion of deposits in Federal Reserve Bank balances. These balances were treated as non-earning assets prior to the fourth quarter 2018. As of March 31, 2019, approximately $126 million of loans were included in held-for-sale related to the previously announced sale of our Wisconsin branches, which is expected to close in the 2019 second quarter. Average securities decreased $1.2 billion, or 5%, primarily due to runoff in the portfolio in 2018.

Average total interest-bearing liabilities for the 2019 first quarter increased $3.6 billion, or 5%, from the year-ago quarter. Average total deposits increased $5.8 billion, or 8%, from the year-ago quarter, while average total core deposits increased $5.6 billion, or 8%. Average core certificates of deposit increased $3.8 billion, or 164%, reflecting consumer deposit growth initiatives primarily in the first three quarters of 2018. Average money market deposits increased $2.3 billion, or 11%, reflecting the shift in promotional pricing to consumer money market accounts in mid-2018. Average interest-bearing demand deposits increased $1.1 billion, or 6%, primarily driven by the shift in commercial balances from noninterest-bearing to interest-bearing checking. Savings and other domestic deposits decreased $0.9 billion, or 8%, primarily reflecting a continued shift in consumer product mix. Average noninterest-bearing demand deposits decreased $0.6 billion, or 3%, primarily driven by the aforementioned shift in commercial checking balances, partially offset by continued growth in consumer noninterest-bearing checking. Average short-term borrowings decreased $2.9 billion, or 56%, as growth in core deposits reduced reliance on wholesale funding. As of March 31, 2019, approximately $845 million of deposits are held-for-sale associated with the previously-mentioned pending Wisconsin branch sale.

2019 First Quarter versus 2018 Fourth Quarter

Compared to the 2018 fourth quarter, FTE net interest income decreased $12 million, or 1%, primarily reflecting the NIM compression of 2 basis points, more than offsetting the benefit from the $1.5 billion, or 1%, increase in average earning assets. Average earning asset yields increased 9 basis points sequentially, driven by a 9 basis point increase in loan yields. Average interest-bearing liability costs increased 12 basis points, primarily driven by a 10 basis point increase in average interest-bearing deposit costs. The benefit of noninterest-bearing funding improved 1 basis point linked quarter. The purchase accounting impact on the net interest margin was approximately 6 basis points in the 2019 first quarter, down 1 basis point from the prior quarter. The 2018 fourth quarter included an approximately 2 basis point impact from higher commercial interest recoveries.

Compared to the 2018 fourth quarter, average earning assets increased $1.5 billion, or 1%, primarily reflecting the $1.0 billion, or 1%, increase in average loans and leases. Average C&I loans increased $1.0 billion, or 3%, reflecting growth in corporate banking, asset finance, dealer floorplan, and broad-based growth across the specialty lending verticals. Average securities increased $0.5 billion, or 2%, primarily reflecting the timing of purchases in anticipation of future cash flows.

Compared to the 2018 fourth quarter, average total interest-bearing liabilities increased $1.7 billion, or 2%. Average short-term borrowings increased $1.3 billion, or 131%, as loan growth and seasonality in deposits drove increased borrowings in the quarter.

Provision for Credit Losses

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

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

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The provision for credit losses for the 2019 first quarter was $67 million, which increased $1 million, or 2%, compared to the first quarter 2018. The increase from the 2018 first quarter is primarily attributed to higher commercial losses.

Noninterest Income

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

Table 3 - Noninterest Income

	Three Months Ended			1Q19 vs. 1Q18		1Q19 vs. 4Q18	
	March 31,	December 31,	March 31,	Change		Change	
(dollar amounts in millions)	2019	2018	2018	Amount	Percent	Amount	Percent
Service charges on deposit accounts	$87	$ 94	$ 86	$1	1 %	$(7)	(7)%
Card and payment processing income	56	58	53	3	6	(2)	(3)
Trust and investment management services	44	42	44	—	—	2	5
Mortgage banking income	21	23	26	(5)	(19)	(2)	(9)
Capital markets fees	22	34	21	1	5	(12)	(35)
Insurance income	21	21	21	—	—	—	—
Bank owned life insurance income	16	16	15	1	7	—	—
Gain on sale of loans and leases	13	16	8	5	63	(3)	(19)
Securities gains (losses)	—	(19)	—	—	—	19	100
Other income	39	44	40	(1)	(3)	(5)	(11)
Total noninterest income	$319	$ 329	$ 314	$5	2 %	$(10)	(3)%

2019 First Quarter versus 2018 First Quarter

Reported noninterest income for the 2019 first quarter increased $5 million, or 2%, from the year-ago quarter. Gain on sale of loans and leases increased $5 million, or 63%, primarily reflecting the gain on the sale of asset finance leases and higher SBA sales. Mortgage banking income decreased $5 million, or 19%, primarily reflecting net mortgage servicing rights (MSR) risk management-related activities and lower origination volume.

2019 First Quarter versus 2018 Fourth Quarter

Compared to the 2018 fourth quarter, total noninterest income decreased $10 million, or 3%. Securities losses were less than $1 million compared to $19 million in the prior quarter, reflecting the portfolio repositioning completed in the 2018 fourth quarter. Capital market fees decreased $12 million, or 35%, driven by unfavorable commodities derivatives mark-to-market adjustments related to a commercial customer default and decreased interest rate derivative and syndication activity. Service charges on deposit accounts decreased $7 million, or 7%, primarily reflecting seasonality. Other income decreased $5 million, or 11%, primarily reflecting lower income on terminated asset finance leases.

Noninterest Expense

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

Table 4 - Noninterest Expense

	Three Months Ended			1Q19 vs. 1Q18		1Q19 vs. 4Q18	
	March 31,	December 31,	March 31,	Change		Change	
(dollar amounts in millions)	2019	2018	2018	Amount	Percent	Amount	Percent
Personnel costs	$394	$ 399	$ 376	$18	5 %	$(5)	(1)%
Outside data processing and other services	81	83	73	8	11	(2)	(2)
Net occupancy	42	70	41	1	2	(28)	(40)
Equipment	40	48	40	—	—	(8)	(17)
Deposit and other insurance expense	8	9	18	(10)	(56)	(1)	(11)
Professional services	12	17	11	1	9	(5)	(29)

Marketing	7	15	8	(1	)	(13	)		(8	)	(53	)
Amortization of intangibles	13	13	14	(1	)	(7	)		—		—	
Other noninterest expense	56	57	52	4		8			(1	)	(2	)
Total noninterest expense	$653	$ 711	$ 633	$20		3		%	$(58	)	(8	)%
Number of employees (average full-time equivalent)	15,738	15,657	15,599	139		1		%	81		1	%

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2019 First Quarter versus 2018 First Quarter

Reported noninterest expense for the 2019 first quarter increased $20 million, or 3%, from the year-ago quarter. Personnel costs increased $18 million, or 5%, primarily reflecting strategic hiring, the implementation of annual merit increases in the 2018 second quarter, and increased benefits costs. Outside data processing and other services increased $8 million, or 11%, primarily driven by higher technology investment costs. Deposit and other insurance expense decreased $10 million, or 56%, due to the discontinuation of the FDIC surcharge in the 2018 fourth quarter.

2019 First Quarter versus 2018 Fourth Quarter

Reported noninterest expense decreased $58 million, or 8%, from the 2018 fourth quarter. Net occupancy decreased $28 million, or 40%, reflecting branch and facility consolidation-related expense in the 2018 fourth quarter. Equipment decreased $8 million, or 17%, reflecting branch and facility consolidation-related expense in the 2018 fourth quarter. Marketing expense decreased $8 million, or 53%, reflecting the timing of marketing campaigns and deposit promotions. Personnel costs decreased $5 million, or 1%, primarily reflecting lower performance-based incentive compensation.

Provision for Income Taxes

The provision for income taxes in the 2019 first quarter was $63 million. This compared with a provision for income taxes of $59 million in the 2018 first quarter and $57 million in the 2018 fourth quarter. All periods included the benefits from tax-exempt income, tax-advantaged investments, general business credits, investments in qualified affordable housing projects, stock-based compensation, and capital losses. The effective tax rates for the 2019 first quarter, 2018 first quarter, and 2018 fourth quarter were 15.0%, 15.3%, and 14.6%, respectively. The net federal deferred tax liability was $159 million and the net state deferred tax asset was $35 million at March 31, 2019.

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. Certain proposed adjustments resulting from the IRS examination of our 2010 through 2011 tax returns have been settled, subject to final approval by the Joint Committee on Taxation of the U.S. Congress. While the statute of limitations remains open for tax years 2012 through 2017, the IRS has advised that tax years 2012 through 2014 will not be audited, and began the examination of the 2015 federal income tax return during 2018. Various state and other jurisdictions remain open to examination, including Ohio, Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, Wisconsin, and Illinois.

RISK MANAGEMENT AND CAPITAL

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

We believe that our primary risk exposures are credit, market, liquidity, operational and compliance. More information on risk can be found in the Risk Factors section included in Item 1A of our 2018 Form 10-K and subsequent filings with the SEC. The MD&A included in our 2018 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 Unaudited Condensed Consolidated Financial Statements, Notes to Unaudited Condensed Consolidated Financial Statements, 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 2018 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 investment securities portfolios (see Note 4 "Investment Securities and Other Securities" of the Notes to the Unaudited Condensed Consolidated Financial Statements). We engage with other financial counterparties for a variety of purposes including investing, asset and liability management, mortgage banking, and trading activities. While there is credit risk associated with derivative activity, we believe this exposure is minimal.

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

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Loan and Lease Credit Exposure Mix

Refer to the “Loan and Lease Credit Exposure Mix” section of our 2018 Form 10-K for a brief description of each portfolio segment.

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

Table 5 - Loan and Lease Portfolio Composition

(dollar amounts in millions)	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
Commercial:										
Commercial and industrial	$30,972	41 %	$30,605	41 %	$29,196	40 %	$28,850	40 %	$28,622	40 %
Commercial real estate:										
Construction	1,152	2	1,185	2	1,111	2	1,083	1	1,167	2
Commercial	5,643	8	5,657	8	5,962	8	6,118	8	6,245	9
Commercial real estate	6,795	10	6,842	10	7,073	10	7,201	9	7,412	11
Total commercial	37,767	51	37,447	51	36,269	50	36,051	49	36,034	51
Consumer:										
Automobile	12,272	16	12,429	16	12,375	17	12,390	17	12,146	17
Home equity	9,551	13	9,722	13	9,850	13	9,907	14	9,987	14
Residential mortgage	10,885	14	10,728	14	10,459	14	10,006	14	9,357	13
RV and marine	3,344	4	3,254	4	3,152	4	2,846	4	2,549	3
Other consumer	1,260	2	1,320	2	1,265	2	1,206	2	1,090	2
Total consumer	37,312	49	37,453	49	37,101	50	36,355	51	35,129	49
Total loans and leases	$75,079	100%	$74,900	100%	$73,370	100%	$72,406	100%	$71,163	100%

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

Commercial Credit

Refer to the “Commercial Credit” section of our 2018 Form 10-K for our commercial credit underwriting and on-going credit management processes.

Consumer Credit

Refer to the “Consumer Credit” section of our 2018 Form 10-K for our consumer credit underwriting and on-going credit management processes.

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The table below provides our total loan and lease portfolio segregated by industry type. The changes in the industry composition from December 31, 2018 are consistent with the portfolio growth metrics.

Table 6 - Loan and Lease Portfolio by Industry Type

(dollar amounts in millions)	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
Commercial loans and leases:										
Real estate and rental and leasing	6,955	9 %	$6,964	9 %	$7,187	10 %	$7,314	10 %	$7,509	11 %
Retail trade (1)	5,266	7	5,337	7	4,987	7	4,886	7	5,034	7
Manufacturing	5,338	7	5,140	7	4,817	7	4,867	7	4,780	7
Finance and insurance	3,457	5	3,377	5	3,345	5	3,188	4	3,216	5
Wholesale trade	2,725	4	2,830	4	2,609	4	2,575	4	2,472	3
Health care and social assistance	2,575	3	2,533	3	2,582	4	2,589	4	2,649	4
Accommodation and food services	1,782	2	1,709	2	1,636	2	1,657	2	1,675	2
Professional, scientific, and technical services	1,401	2	1,344	2	1,269	2	1,303	2	1,293	2
Transportation and warehousing	1,323	2	1,320	2	1,176	2	1,209	2	1,171	2
Mining, quarrying, and oil and gas extraction	1,306	2	1,286	2	1,045	1	899	1	780	1
Other services	1,243	2	1,290	2	1,312	2	1,266	2	1,263	2
Construction	973	1	924	1	986	1	1,010	1	1,030	1
Admin./Support/Waste Mgmt. and Remediation Services	690	1	737	1	664	1	611	1	551	1
Arts, entertainment, and recreation	585	1	599	1	585	1	503	1	525	1
Information	522	1	441	1	346	—	395	—	434	1
Educational services	478	1	473	1	482	1	493	1	498	1
Utilities	428	1	454	1	459	—	417	—	410	—
Public administration	249	—	253	—	253	—	255	—	236	—
Unclassified/Other	187	—	174	—	266	—	336	—	244	—
Agriculture, forestry, fishing and hunting	171	—	174	—	178	—	195	—	164	—
Management of companies and enterprises	113	—	88	—	85	—	83	—	100	—
Total commercial loans and leases by industry category	37,767	51	37,447	51	36,269	50	36,051	49	36,034	51
Automobile	12,272	16	12,429	16	12,375	17	12,390	17	12,146	17
Home Equity	9,551	13	9,722	13	9,850	13	9,907	14	9,987	14
Residential mortgage	10,885	14	10,728	14	10,459	14	10,006	14	9,357	13
RV and marine	3,344	4	3,254	4	3,152	4	2,846	4	2,549	3
Other consumer loans	1,260	2	1,320	2	1,265	2	1,206	2	1,090	2
Total loans and leases	75,079	100%	$74,900	100%	$73,370	100%	$72,406	100%	$71,163	100%

(1) Amounts include $3.6 billion, $3.6 billion, $3.3 billion, $3.2 billion and $3.4 billion of auto dealer services loans at March 31, 2019, December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018, respectively. These loans have a materially better risk profile than the generic Retail trade category.

Credit Quality

(This section should be read in conjunction with Note 3 "Loans / Leases and Allowance for Credit Losses" 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 specific performance ratios. This approach forms the basis of the discussion in the sections immediately following: NPAs, NALs, TDRs, ACL, and NCOs. In addition, we utilize delinquency rates, risk distribution and migration patterns, product segmentation, and origination trends in the analysis of our credit quality performance.

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Credit quality performance in the 2019 first quarter reflected higher net charge-offs than the year-ago quarter. Consumer NCOs have remained consistent with the prior year quarter. Total NCOs were $71 million, or 0.38% annualized, of average total loans and leases. NCOs increased $21 million from the prior quarter, with $20 million of the increase within the Commercial portfolio. The increase was centered in two specific Commercial credit relationships. There was a 19% increase in NPAs from the prior quarter, also centered in the Commercial portfolio. NPAs to total loans and leases remains low at 0.61%. The ALLL to total loans and leases ratio decreased 1 basis point to 1.02%.

NPAs, NALs, AND TDRs

(This section should be read in conjunction with Note 3 "Loans / Leases and Allowance for Credit Losses" of the Notes to Unaudited Condensed Consolidated Financial Statements and "Credit Quality" section of our 2018 Form 10-K.)

NPAs and NALs

Commercial loans are placed on nonaccrual status at 90-days past due, or earlier if repayment of principal and interest is in doubt. Of the $280 million of commercial related NALs at March 31, 2019, $207 million, or 74%, represented loans that were less than 30-days past due, demonstrating our continued commitment to proactive credit risk management. With the exception of residential mortgage loans guaranteed by government organizations which continue to accrue interest, first-lien loans secured by residential mortgage collateral are placed on nonaccrual status at 150-days past due. Junior-lien home equity loans are placed on nonaccrual status at the earlier of 120-days past due or when the related first-lien loan has been identified as nonaccrual. Automobile, RV and marine, and other consumer loans are generally fully charged-off at 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 7 - Nonaccrual Loans and Leases and Nonperforming Assets

(dollar amounts in millions)	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Nonaccrual loans and leases (NALs):					
Commercial and industrial	$ 271	$ 188	$ 211	$ 207	$ 190
Commercial real estate	9	15	19	25	30
Automobile	4	5	5	4	5
Home equity	64	62	67	68	75
Residential mortgage	68	69	67	73	82
RV and marine	1	1	1	1	1
Other consumer	—	—	—	—	—
Total nonaccrual loans and leases	417	340	370	378	383
Other real estate, net:					
Residential	14	19	22	23	23
Commercial	4	4	5	5	7
Total other real estate, net	18	23	27	28	30
Other NPAs (1)	26	24	6	6	7
Total nonperforming assets	$ 461	$ 387	$ 403	$ 412	$ 420
Nonaccrual loans and leases as a % of total loans and leases	0.56 %	0.45 %	0.50 %	0.52 %	0.54 %
NPA ratio (2)	0.61	0.52	0.55	0.57	0.59

(1) Other nonperforming assets include certain impaired investment securities and/or nonaccrual loans held-for-sale.
(2) Nonperforming assets divided by the sum of loans and leases, other real estate owned, and other NPAs.

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2019 First Quarter versus 2018 Fourth Quarter.
Total NPAs increased by $74 million, or 19%, compared with December 31, 2018, primarily related to an increase in the C&I portfolio. The increase was centered in two specific Commercial credit relationships.
TDR Loans
(This section should be read in conjunction with Note 3 "Loans / Leases and Allowance for Credit Losses" of the Notes to Unaudited Condensed Consolidated Financial Statements and TDR Loans section of our 2018 Form 10-K.)
Over the past five quarters, the accruing component of the total TDR balance has been consistently over 80%, indicating there is no identified credit loss and the borrowers continue to make their monthly payments. As of March 31, 2019, over 81% of the $466 million of accruing TDRs secured by residential real estate (Residential mortgage and Home equity in Table 8) are current on their required payments, with over 64% of the accruing pool having had no delinquency in the past 12 months. There is limited migration from the accruing to non-accruing components, and virtually all of the charge-offs come from the non-accruing TDR balances.
The table below presents our accruing and nonaccruing TDRs at period-end for each of the past five quarters:
Table 8 - Accruing and Nonaccruing Troubled Debt Restructured Loans

(dollar amounts in millions)	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
TDRs—accruing:					
Commercial and industrial	$ 270	$ 269	$ 308	$ 314	$ 316
Commercial real estate	60	54	60	65	76
Automobile	37	35	34	32	32
Home equity	247	252	257	258	261
Residential mortgage	219	218	219	221	224
RV and marine	2	2	2	1	1
Other consumer	9	9	10	9	6
Total TDRs—accruing	844	839	890	900	916
TDRs—nonaccruing:					
Commercial and industrial	86	97	100	87	83
Commercial real estate	6	6	8	14	16
Automobile	3	3	3	3	3
Home equity	28	28	28	28	31
Residential mortgage	43	44	46	46	52
RV and marine	1	—	1	1	—
Other consumer	—	—	—	—	—
Total TDRs—nonaccruing	167	178	186	179	185
Total TDRs	$ 1,011	$ 1,017	$ 1,076	$ 1,079	$ 1,101

Overall TDRs decreased slightly in the quarter. Huntington continues to proactively work with our commercial borrowing relationships that require assistance. The resulting loan structures enable our borrowers to meet their commitments and Huntington to retain earning assets. The accruing TDRs meet the well secured definition and have demonstrated a period of satisfactory payment performance.
ACL
(This section should be read in conjunction with Note 3 "Loans / Leases and Allowance for Credit Losses" 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 incurred losses in the loan portfolio at the reported date. Additions to the ALLL result from recording provision expense for loan losses or increased risk levels resulting from loan risk-rating downgrades or

qualitative adjustments, while reductions reflect charge-offs (net of recoveries), decreased risk levels resulting from loan risk-rating upgrades, or the sale of loans. The AULC is determined by

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

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

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

Table 9 - Allocation of Allowance for Credit Losses (1)

(dollar amounts in millions)	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
ALLL										
Commercial										
Commercial and industrial	$437	41 %	$422	41 %	$419	40 %	$413	40 %	$402	40 %
Commercial real estate	108	10	120	10	124	10	118	9	113	11
Total commercial	545	51	542	51	543	50	531	49	515	51
Consumer										
Automobile	53	16	56	16	52	17	52	17	52	17
Home equity	53	13	55	13	54	13	55	14	57	14
Residential mortgage	23	14	25	14	24	14	24	14	24	13
RV and marine	20	4	20	4	18	4	17	4	16	3
Other consumer	70	2	74	2	70	2	62	2	57	2
Total consumer	219	49	230	49	218	50	210	51	206	49
Total ALLL	764	100%	772	100 %	761	100 %	741	100%	721	100%
AULC	100		96		97		93		85	
Total ACL	$864		$868		$858		$834		$806	
Total ALLL as a % of										
Total loans and leases										