

FIFTH THIRD BANCORP  
Form 10-Q  
November 05, 2015  
[Table of Contents](#)

**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**  
**For the Quarterly Period Ended September 30, 2015**  
**Commission File Number 001-33653**

(Exact name of Registrant as specified in its charter)

|  |   |
|--|---|
| <b>Ohio</b><br>(State or other jurisdiction<br>of incorporation or organization)                       | <b>31-0854434</b><br>(I.R.S. Employer<br>Identification Number) |
| <b>Fifth Third Center</b><br><b>Cincinnati, Ohio 45263</b><br>(Address of principal executive offices) |   |

**Registrant's telephone number, including area code: (800) 972-3030**

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

## Edgar Filing: FIFTH THIRD BANCORP - Form 10-Q

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

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 ☐ No ☒

There were 794,331,190 shares of the Registrant's common stock, without par value, outstanding as of October 31, 2015.

**Table of Contents****FINANCIAL CONTENTS****Part I. Financial Information**

|   |    |
|---|----|
| <u>Glossary of Abbreviations and Acronyms</u>   | 2  |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)</u> |    |
| <u>Selected Financial Data</u>  | 3  |
| <u>Overview</u>   | 4  |
| <u>Non-GAAP Financial Measures</u>  | 9  |
| <u>Recent Accounting Standards</u>  | 11 |
| <u>Critical Accounting Policies</u>   | 11 |
| <u>Statements of Income Analysis</u>  | 12 |
| <u>Balance Sheet Analysis</u>   | 20 |
| <u>Business Segment Review</u>  | 26 |
| <u>Risk Management Overview</u>   | 34 |
| <u>Credit Risk Management</u>   | 35 |
| <u>Market Risk Management</u>   | 49 |
| <u>Liquidity Risk Management</u>  | 53 |
| <u>Operational Risk Management</u>  | 54 |
| <u>Capital Management</u>   | 55 |
| <u>Off-Balance Sheet Arrangements</u>   | 57 |
| <u>Quantitative and Qualitative Disclosures about Market Risk (Item 3)</u>                            | 58 |
| <u>Controls and Procedures (Item 4)</u>   | 58 |
| <u>Condensed Consolidated Financial Statements and Notes (Item 1)</u>                                 |    |
| <u>Balance Sheets (unaudited)</u>   | 59 |
| <u>Statements of Income (unaudited)</u>   | 60 |
| <u>Statements of Comprehensive Income (unaudited)</u>   | 61 |
| <u>Statements of Changes in Equity (unaudited)</u>  | 62 |
| <u>Statements of Cash Flows (unaudited)</u>   | 63 |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>                               | 64 |

**Part II. Other Information**

|   |     |
|---|-----|
| <u>Legal Proceedings (Item 1)</u>   | 120 |
| <u>Risk Factors (Item 1A)</u>   | 120 |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)</u> | 120 |
| <u>Exhibits (Item 6)</u>  | 120 |
| <u>Signatures</u>   | 122 |
| <u>Certifications</u>   |     |

**FORWARD-LOOKING STATEMENTS**

This report contains statements that we believe are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other similar words or phrases such as believes, plans, trend, objective,

remain, or similar expressions, or future or conditional verbs such as will, would, should, could, might, can, verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to the risk factors set forth in our most recent Annual Report on Form 10-K as updated by our Quarterly Reports on Form 10-Q. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to us. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) general economic conditions and weakening in the economy, specifically the real estate market, either nationally or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, are less favorable than expected; (2) deteriorating credit quality; (3) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (4) changes in the interest rate environment reduce interest margins; (5) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (6) Fifth Third's ability to maintain required capital levels and adequate sources of funding and liquidity; (7) maintaining capital requirements and adequate sources of funding and liquidity may limit Fifth Third's operations and potential growth; (8) changes and trends in capital markets; (9) problems encountered by larger or similar financial institutions may adversely affect the banking industry and/or Fifth Third; (10) competitive pressures among depository institutions increase significantly; (11) effects of critical accounting policies and judgments; (12) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (13) legislative or regulatory changes or actions, or significant litigation, adversely affect Fifth Third, one or more acquired entities and/or the combined company or the businesses in which Fifth Third, one or more acquired entities and/or the combined company are engaged, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (14) ability to maintain favorable ratings from rating agencies; (15) fluctuation of Fifth Third's stock price; (16) ability to attract and retain key personnel; (17) ability to receive dividends from its subsidiaries; (18) potentially dilutive effect of future acquisitions on current shareholders ownership of Fifth Third; (19) effects of accounting or financial results of one or more acquired entities; (20) difficulties from Fifth Third's investment in, relationship with, and nature of the operations of Vantiv, LLC; (21) loss of income from any sale or potential sale of businesses that could have an adverse effect on Fifth Third's earnings and future growth; (22) difficulties in separating the operations of any branches or other assets divested; (23) inability to achieve expected benefits from branch consolidations and planned sales within desired timeframes, if at all; (24) ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; and (25) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity.

---

**Table of Contents**

**Glossary of Abbreviations and Acronyms**

Fifth Third Bancorp provides the following list of abbreviations and acronyms as a tool for the reader that are used in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Condensed Consolidated Financial Statements and the Notes to Condensed Consolidated Financial Statements.

|   |  |
|---|--|
| <b>ALCO:</b> Asset Liability Management Committee               | <b>HARP:</b> Home Affordable Refinance Program   |
| <b>ALLL:</b> Allowance for Loan and Lease Losses                | <b>HFS:</b> Held for Sale  |
| <b>AOCI:</b> Accumulated Other Comprehensive Income             | <b>HQLA:</b> High Quality Liquid Assets  |
| <b>ARM:</b> Adjustable Rate Mortgage                            | <b>HUD:</b> Department of Housing and Urban Development  |
| <b>ASU:</b> Accounting Standards Update                         | <b>IPO:</b> Initial Public Offering  |
| <b>ATM:</b> Automated Teller Machine                            | <b>IRC:</b> Internal Revenue Code  |
| <b>BCBS:</b> Basel Committee on Banking Supervision             | <b>IRLC:</b> Interest Rate Lock Commitment   |
| <b>BHC:</b> Bank Holding Company                                | <b>ISDA:</b> International Swaps and Derivatives Association, Inc.                                     |
| <b>BOLI:</b> Bank Owned Life Insurance                          | <b>LCR:</b> Liquidity Coverage Ratio   |
| <b>BPO:</b> Broker Price Opinion                                | <b>LIBOR:</b> London Interbank Offered Rate  |
| <b>bps:</b> Basis Points  | <b>LLC:</b> Limited Liability Company  |
| <b>CCAR:</b> Comprehensive Capital Analysis and Review          | <b>LTV:</b> Loan-to-Value  |
| <b>CDC:</b> Fifth Third Community Development Corporation       | <b>MD&amp;A:</b> Management's Discussion and Analysis of Financial Condition and Results of Operations |
| <b>CET1:</b> Common Equity Tier 1                               | <b>MSA:</b> Metro Statistical Area   |
| <b>CFE:</b> Collateralized Financing Entity                     | <b>MSR:</b> Mortgage Servicing Right   |
| <b>CFPB:</b> United States Consumer Financial Protection Bureau | <b>N/A:</b> Not Applicable   |
| <b>C&amp;I:</b> Commercial and Industrial                       | <b>NII:</b> Net Interest Income  |
| <b>DCF:</b> Discounted Cash Flow                                |  |

## Edgar Filing: FIFTH THIRD BANCORP - Form 10-Q

**DFA:** Dodd-Frank Wall Street Reform & Consumer Protection Act

**DTCC:** Depository Trust & Clearing Corporation

**ERISA:** Employee Retirement Income Security Act

**ERM:** Enterprise Risk Management

**ERMC:** Enterprise Risk Management Committee

**EVE:** Economic Value of Equity

**FASB:** Financial Accounting Standards Board

**FDIC:** Federal Deposit Insurance Corporation

**FFIEC:** Federal Financial Institutions Examination Council

**FHA:** Federal Housing Administration

**FHLB:** Federal Home Loan Bank

**FHLMC:** Federal Home Loan Mortgage Corporation

**FICO:** Fair Isaac Corporation (credit rating)

**FNMA:** Federal National Mortgage Association

**FRB:** Federal Reserve Bank

**FTE:** Fully Taxable Equivalent

**FTP:** Funds Transfer Pricing

**FTS:** Fifth Third Securities

**GNMA:** Government National Mortgage Association

**GSE:** U.S. Government Sponsored Enterprise

**HAMP:** Home Affordable Modification Program

**NM:** Not Meaningful

**NSFR:** Net Stable Funding Ratio

**OAS:** Option-Adjusted Spread

**OCC:** Office of the Comptroller of the Currency

**OCI:** Other Comprehensive Income (Loss)

**OREO:** Other Real Estate Owned

**OTTI:** Other-Than-Temporary Impairment

**PMI:** Private Mortgage Insurance

**SBA:** Small Business Administration

**SEC:** United States Securities and Exchange Commission

**TBA:** To Be Announced

**TDR:** Troubled Debt Restructuring

**TRA:** Tax Receivable Agreement

**TruPS:** Trust Preferred Securities

**U.S.:** United States of America

**U.S. GAAP:** United States Generally Accepted Accounting

Principles

**VA:** U.S. Department of Veteran Affairs

**VIE:** Variable Interest Entity

**VRDN:** Variable Rate Demand Note

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)**

The following is Management's Discussion and Analysis of Financial Condition and Results of Operations of certain significant factors that have affected Fifth Third Bancorp's (the Bancorp or Fifth Third) financial condition and results of operations during the periods included in the Condensed Consolidated Financial Statements, which are a part of this filing. Reference to the Bancorp incorporates the parent holding company and all consolidated subsidiaries.

**TABLE 1: Selected Financial Data**

| (\$ in millions, except for per share data)                               | For the three months ended<br>September 30, |       |          | For the nine months ended<br>September 30, |       |          |
|---|---|-------|----------|--|-------|----------|
|   | 2015  | 2014  | % Change | 2015                                       | 2014  | % Change |
| <b>Income Statement Data</b>  |   |       |          |  |       |          |
| Net interest income <sup>(a)</sup>  | \$ 906                                      | 908   |          | \$ 2,650                                   | 2,712 | (2)      |
| Noninterest income  | 713   | 520   | 37       | 1,900                                      | 1,820 | 4        |
| Total revenue <sup>(a)</sup>  | 1,619                                       | 1,428 | 13       | 4,550                                      | 4,532 |          |
| Provision for loan and lease losses                                       | 156   | 71    | NM       | 305  | 216   | 41       |
| Noninterest expense   | 943   | 888   | 6        | 2,814                                      | 2,792 | 1        |
| Net income attributable to Bancorp  | 381   | 340   | 12       | 1,056                                      | 1,096 | (4)      |
| Net income available to common shareholders                               | 366   | 328   | 12       | 1,004                                      | 1,052 | (5)      |
| <b>Common Share Data</b>  |   |       |          |  |       |          |
| Earnings per share, basic   | \$ 0.46                                     | 0.39  | 18       | \$ 1.24                                    | 1.25  | (1)      |
| Earnings per share, diluted   | 0.45  | 0.39  | 15       | 1.22                                       | 1.23  | (1)      |
| Cash dividends declared per common share                                  | 0.13  | 0.13  |          | 0.39                                       | 0.38  | 3        |
| Book value per share  | 18.22                                       | 16.87 | 8        | 18.22                                      | 16.87 | 8        |
| Market value per share  | 18.91                                       | 20.02 | (6)      | 18.91                                      | 20.02 | (6)      |
| <b>Financial Ratios</b>   |   |       |          |  |       |          |
| Return on average assets  | 1.07 %                                      | 1.02  | 5        | 1.01 %                                     | 1.12  | (10)     |
| Return on average common equity   | 10.0  | 9.2   | 9        | 9.3  | 10.0  | (7)      |
| Return on average tangible common equity <sup>(b)</sup>                   | 12.0  | 11.1  | 9        | 11.1                                       | 12.2  | (9)      |
| Dividend payout ratio   | 28.3  | 33.3  | (15)     | 31.5                                       | 30.4  | 4        |
| Average total Bancorp shareholders' equity as a percent of average assets | 11.24                                       | 11.71 | (4)      | 11.35                                      | 11.61 | (2)      |
| Tangible common equity <sup>(b)</sup>                                     | 8.32  | 8.64  | (4)      | 8.32                                       | 8.64  | (4)      |
| Net interest margin <sup>(a)</sup>  | 2.89  | 3.10  | (7)      | 2.88                                       | 3.16  | (9)      |
| Efficiency <sup>(a)</sup>   | 58.2  | 62.1  | (6)      | 61.8                                       | 61.6  |          |
| <b>Credit Quality</b>   |   |       |          |  |       |          |
| Net losses charged-off  | \$ 188                                      | 115   | 63       | \$ 366                                     | 384   | (5)      |

|  |               |      |      |               |      |      |
|--|---------------|------|------|---------------|------|------|
| Net losses charged-off as a percent of average portfolio loans and leases                                    | <b>0.80 %</b> | 0.50 | 60   | <b>0.53 %</b> | 0.57 | (7)  |
| ALLL as a percent of portfolio loans and leases  | <b>1.35</b>   | 1.56 | (13) | <b>1.35</b>   | 1.56 | (13) |
| Allowance for credit losses as a percent of portfolio loans and leases <sup>(c)</sup>                        | <b>1.49</b>   | 1.71 | (13) | <b>1.49</b>   | 1.71 | (13) |
| Nonperforming assets as a percent of portfolio loans, leases and other assets, including OREO <sup>(d)</sup> | <b>0.65</b>   | 0.88 | (26) | <b>0.65</b>   | 0.88 | (26) |

**Average Balances**

|   |                  |         |    |                  |         |    |
|---|------------------|---------|----|------------------|---------|----|
| Loans and leases, including held for sale         | <b>\$ 94,329</b> | 91,428  | 3  | <b>\$ 92,919</b> | 90,973  | 2  |
| Total securities and other short-term investments | <b>30,102</b>    | 24,927  | 21 | <b>29,905</b>    | 23,944  | 25 |
| Total assets                                      | <b>140,739</b>   | 132,220 | 6  | <b>139,472</b>   | 130,717 | 7  |
| Transaction deposits <sup>(e)</sup>               | <b>94,660</b>    | 89,360  | 6  | <b>95,100</b>    | 88,807  | 7  |
| Core deposits <sup>(f)</sup>                      | <b>98,717</b>    | 93,160  | 6  | <b>99,151</b>    | 92,511  | 7  |
| Wholesale funding <sup>(g)</sup>                  | <b>21,718</b>    | 19,787  | 10 | <b>19,672</b>    | 19,084  | 3  |
| Bancorp shareholders equity                       | <b>15,815</b>    | 15,486  | 2  | <b>15,826</b>    | 15,170  | 4  |

|                                  | <b>Basel III<br/>Transitional<sup>(h)</sup></b> | <b>Basel I<sup>(i)</sup></b> |     | <b>Basel III<br/>Transitional<sup>(h)</sup></b> | <b>Basel I<sup>(i)</sup></b> |     |
|----------------------------------|---|------------------------------|-----|---|------------------------------|-----|
| <b>Regulatory Capital Ratios</b> |   |                              |     |   |                              |     |
| CET1 capital                     | <b>9.40 %</b>                                   | N/A                          | N/A | <b>9.40 %</b>                                   | N/A                          | N/A |
| Tier I risk-based capital        | <b>10.49</b>                                    | 10.83                        | N/A | <b>10.49</b>                                    | 10.83                        | N/A |
| Total risk-based capital         | <b>13.68</b>                                    | 14.34                        | N/A | <b>13.68</b>                                    | 14.34                        | N/A |
| Tier I leverage                  | <b>9.38</b>                                     | 9.82                         | N/A | <b>9.38</b>                                     | 9.82                         | N/A |

|                             | <b>Basel III<br/>Fully Phased-In</b> |     |     | <b>Basel III<br/>Fully Phased-In</b> |     |     |
|-----------------------------|--------------------------------------|-----|-----|--------------------------------------|-----|-----|
| CET1 capital <sup>(b)</sup> | <b>9.30</b>                          | N/A | N/A | <b>9.30</b>                          | N/A | N/A |

(a) Amounts presented on an FTE basis. The FTE adjustment for the three months ended **September 30, 2015** and 2014 was **\$5** and for the nine months ended **September 30, 2015** and 2014 was **\$14** and **\$15**, respectively.

(b) The return on average tangible common equity, tangible common equity and CET1 capital (fully phased-in) ratios are non-GAAP measures. For further information, see the Non-GAAP Financial Measures section of MD&A.

(c) The allowance for credit losses is the sum of the ALLL and the reserve for unfunded commitments.

(d) Excludes nonaccrual loans held for sale.

(e) Includes demand, interest checking, savings, money market and foreign office deposits.

(f) Includes transaction deposits plus other time deposits.

(g) Includes certificates \$100,000 and over, other deposits, federal funds purchased, other short-term borrowings and long-term debt.

(h) Under the banking agencies' Basel III Final Rule, assets and credit equivalent amounts of off-balance sheet exposures are calculated according to the standardized approach for risk-weighted assets. The resulting values are added together resulting in the Bancorp's total risk-weighted assets.

(i) These capital ratios were calculated under the Supervisory Agencies general risk-based capital rules (Basel I) which were in effect prior to January 1, 2015.



---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**OVERVIEW**

Fifth Third Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At September 30, 2015, the Bancorp had \$141.9 billion in assets, with 1,295 full-service banking centers, including 99 Bank Mart<sup>®</sup> locations open seven days a week inside select grocery stores, and 2,650 ATMs in 12 states throughout the Midwestern and Southeastern regions of the U.S. The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Investment Advisors. The Bancorp also has an approximate 23% interest in Vantiv Holding, LLC. The carrying value of the Bancorp's investment in Vantiv Holding, LLC was \$422 million at September 30, 2015.

This overview of MD&A highlights selected information in the financial results of the Bancorp and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting policies and estimates, you should carefully read this entire document as well as the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014. Each of these items could have an impact on the Bancorp's financial condition, results of operations and cash flows. In addition, refer to the Glossary of Abbreviations and Acronyms in this report for a list of terms included as a tool for the reader of this quarterly report on Form 10-Q. The abbreviations and acronyms identified therein are used throughout this MD&A, as well as the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements.

Net interest income, net interest margin and the efficiency ratio are presented in MD&A on an FTE basis. The FTE basis adjusts for the tax-favored status of income from certain loans and securities held by the Bancorp that are not taxable for federal income tax purposes. The Bancorp believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

The Bancorp's revenues are dependent on both net interest income and noninterest income. For the three months ended September 30, 2015, net interest income on an FTE basis and noninterest income provided 56% and 44% of total revenue, respectively. For the nine months ended September 30, 2015, net interest income on an FTE basis and noninterest income provided 58% and 42% of total revenue, respectively. The Bancorp derives the majority of its revenues within the U.S. from customers domiciled in the U.S. Revenue from foreign countries and external customers domiciled in foreign countries was immaterial to the Condensed Consolidated Financial Statements. Changes in interest rates, credit quality, economic trends and the capital markets are primary factors that drive the performance of the Bancorp. As discussed later in the Risk Management section of MD&A, risk identification, measurement, monitoring, control and reporting are important to the management of risk and to the financial performance and capital strength of the Bancorp.

Net interest income is the difference between interest income earned on assets such as loans, leases and securities, and interest expense incurred on liabilities such as deposits, other short-term borrowings and long-term debt. Net interest income is affected by the general level of interest rates, the relative level of short-term and long-term interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Generally, the rates of interest the Bancorp earns on its assets and pays on its liabilities are established for a period of time. The change in market interest rates over time exposes the Bancorp to interest rate risk through

potential adverse changes to net interest income and financial position. The Bancorp manages this risk by continually analyzing and adjusting the composition of its assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to changes in market interest rates. Additionally, in the ordinary course of business, the Bancorp enters into certain derivative transactions as part of its overall strategy to manage its interest rate and prepayment risks. The Bancorp is also exposed to the risk of losses on its loan and lease portfolio, as a result of changing expected cash flows caused by borrower credit events, such as, loan defaults and inadequate collateral due to a weakened economy within the Bancorp's footprint.

Noninterest income is derived from service charges on deposits, investment advisory revenue, corporate banking revenue, mortgage banking net revenue, card and processing revenue, securities gains, net and other noninterest income. Noninterest expense includes personnel costs, net occupancy expense, technology and communication costs, card and processing expense, equipment expense and other noninterest expense.

### **Branch Consolidation and Sales Plan**

The Bancorp monitors changing customer preferences associated with the channels it uses for banking transactions to evaluate the efficiency, competitiveness and quality of the customer service experience in its consumer distribution network. As part of this ongoing assessment, the Bancorp may determine that it is no longer fully committed to maintaining full-service branches at certain of its existing banking center locations. Similarly, the Bancorp may also determine that it is no longer fully committed to building banking centers on certain parcels of land which had previously been held for future branch expansion. On June 16, 2015, the Bancorp's Board of Directors authorized management to pursue a plan to further develop its distribution strategy, including a plan to consolidate and/or sell 105 operating branch locations and to sell an additional 31 parcels of undeveloped land that had been acquired by the Bancorp for future branch expansion (the "Branch Consolidation and Sales Plan"). The Bancorp expects to receive \$65 million in annual savings from operating expenses upon completion of the Branch Consolidation and Sales Plan.

On September 3, 2015, the Bancorp announced the decision to enter into an agreement to sell branch banking locations, retail accounts, certain private banking deposits and related loan relationships in the Pittsburgh MSA to First National Bank of Pennsylvania. On September 30, 2015, the Bancorp announced the decision to enter into an agreement to sell its retail operations, including retail accounts, certain private banking deposits and related loan relationships in the St. Louis MSA to Great Southern Bank. Both transactions are part of the Branch Consolidation and Sales Plan and are expected to close in the first half of 2016, subject to regulatory review and approval.

The Bancorp performs assessments of the recoverability of long-lived assets when events or changes in circumstances indicate that their carrying values may not be recoverable. Impairment losses associated with such assessments and lower of cost or market adjustments were \$2 million and \$104 million for the three and nine months ended September 30, 2015, respectively.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The Bancorp did not recognize impairment losses during the three months ended September 30, 2014 and recognized \$18 million of impairment losses during the nine months ended September 30, 2014. The recognized impairment losses were recorded in other noninterest income in the Condensed Consolidated Statements of Income. For more information on the Branch Consolidation and Sales Plan, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

**Accelerated Share Repurchase Transactions**

During the nine months ended September 30, 2015, the Bancorp entered into or settled a number of accelerated share repurchase transactions. As part of these transactions, the Bancorp entered into forward contracts in which the final number of shares delivered at settlement was based generally on a discount to the average daily volume weighted-average price of the Bancorp's common stock during the term of the repurchase agreements. For more information on the accelerated share repurchase program, refer to Note 16 of the Notes to Condensed Consolidated Financial Statements. For a summary of the Bancorp's accelerated share repurchase transactions that were entered into or settled during the nine months ended September 30, 2015, refer to Table 2.

**TABLE 2: Summary of Accelerated Share Repurchase Transactions**

| Repurchase Date   | Amount (\$ in millions) | Shares Received from Forward |                     | Total Shares Repurchased | Settlement Date   |
|-------------------|-------------------------|------------------------------|---------------------|--------------------------|-------------------|
|                   |                         | Repurchase Date              | Contract Settlement |                          |                   |
| October 23, 2014  | \$ 180                  | 8,337,875                    | 794,245             | 9,132,120                | January 8, 2015   |
| January 27, 2015  | 180                     | 8,542,713                    | 1,103,744           | 9,646,457                | April 28, 2015    |
| April 30, 2015    | 155                     | 6,704,835                    | 842,655             | 7,547,490                | July 31, 2015     |
| August 3, 2015    | 150                     | 6,039,792                    | 1,346,314           | 7,386,106                | September 3, 2015 |
| September 9, 2015 | 150                     | 6,538,462                    | 1,446,613           | 7,985,075                | October 23, 2015  |

**Senior Notes Offerings**

On July 27, 2015, the Bancorp issued and sold \$1.1 billion of 2.875% senior fixed-rate notes, with a maturity of five years, due on July 27, 2020. These notes will be redeemable by the Bancorp, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

On August 20, 2015, the Bank issued and sold \$1.3 billion in aggregate principal amount of unsecured senior bank notes. The bank notes consisted of \$1.0 billion of 2.15% senior fixed-rate notes, with a maturity of three years, due on August 20, 2018; and \$250 million of senior floating-rate notes, with a maturity of three years, due on August 20, 2018. The Bancorp entered into interest rate swaps to convert the fixed-rate notes to floating-rate, which resulted in an effective rate of three-month LIBOR plus 90 bps. Interest on the floating-rate notes is 3-month LIBOR plus 91 bps. These bank notes will be redeemable by the Bank, in whole or in part, on or after the date that is 30 days prior to the

maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding the redemption date.

### **Tax Receivable Agreement Termination**

On October 23, 2015, the Bancorp entered into an agreement with Vantiv, Inc. under which a portion of its TRA with Vantiv, Inc. was terminated and settled in full for consideration of a cash payment in the amount of approximately \$49 million from Vantiv, Inc. Under the agreement, the Bancorp sold certain TRA cash flows it expected to receive from 2017 to 2030, totaling an estimated \$140 million. Approximately half of the sold TRA cash flows related to 2025 and later. This sale does not impact the TRA payment expected to be recognized in the fourth quarter of 2015 or the TRA payment expected to be recognized in the fourth quarter of 2016. Additionally, the Bancorp will recognize the gain of approximately \$49 million in the Condensed Consolidated Statements of Income during the fourth quarter of 2015.

### **Legislative and Regulatory Developments**

The FDIC published a notice of proposed rulemaking in October of 2015 which would implement a 4.5 bps surcharge on the quarterly FDIC insurance assessments of insured depository institutions with consolidated total assets of \$10 billion or more. The surcharge would take effect at the same time the FDIC is required to lower the regular FDIC insurance assessments by 2 bps under the existing regulations that are triggered by the deposit insurance fund reserve ratio reaching 1.15%. The FDIC estimates the deposit insurance fund reserve ratio will reach 1.15% in 2016 and the surcharge would be sufficient to raise the deposit insurance fund reserve ratio to the 1.35% minimum mandated by the DFA in approximately eight quarters. Fifth Third estimates the proposed changes to the FDIC assessments would result in a net increase in its FDIC insurance expense of approximately \$25 million on an annual basis.

On September 30, 2015, the Bancorp agreed to pay approximately \$85 million to cover losses on approximately 500 loans for which HUD had paid FHA insurance claims, and an additional \$2 million to HUD, in connection with the Bancorp's entry into a Stipulation and Order of Settlement and Dismissal with the Department of Justice and HUD, which was approved by the U.S. District Court for the Southern District of New York on October 5, 2015, and a related Settlement Agreement with HUD. The total amount is within the amount the Bancorp had previously included in its accrual for this matter. The Bancorp has also agreed to indemnify HUD for any losses related to approximately 900 loans which have not been the subject of mortgage insurance claims. The settlement resulted in part from the Bancorp's voluntary disclosure of approximately 1,400 mortgages that it had previously certified as eligible for FHA insurance but which were later determined to be ineligible for such insurance.

On September 28, 2015, the Bancorp entered into consent orders and agreed, without admitting or denying any of the findings of fact or conclusions of law (except to establish jurisdiction), to pay \$18 million to consumers in a settlement with the Department of Justice and the CFPB related to an investigation into whether Fifth Third Bank engaged in any discriminatory practices in connection with the Bank's indirect automobile loan portfolio.

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

This amount is within the amount included in the Bancorp's accrual for this matter and is subject to a credit of between \$5 million and \$6 million for remediation the Bancorp has already paid. The consent orders also provide that the Bancorp will implement a new dealer compensation policy and that the Bancorp's Board of Directors will oversee its compliance with the consent orders.

On September 28, 2015, the Bancorp agreed to pay an amount not less than \$3 million in redress to consumers and a civil penalty of \$500,000 to the CFPB in connection with its entry into a consent order with the CFPB related to the marketing and administration of the Bancorp's debt protection credit card add-on product for those enrolled in the product from January 1, 2007, through November 11, 2013. This \$3.5 million is within the amount the Bancorp had included in its accrual for this matter. As part of this settlement, the Bancorp has also agreed, without admitting or denying any findings of fact or conclusions of law (except to establish jurisdiction), to adopt a compliance plan with respect to the advertising, marketing, promotion, offering or sale of any credit card add-on products, the performance of any such products and the management of its vendors with respect to such products and not to market or sell similar debt protection add-on products without first securing a determination of non-objection from the CFPB.

On July 21, 2010, the DFA was signed into federal law. This act implements changes to the financial services industry and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The legislation established the CFPB responsible for implementing and enforcing compliance with consumer financial laws, changes the methodology for determining deposit insurance assessments, gives the FRB the ability to regulate and limit interchange rates charged to merchants for the use of debit cards, enacts new limitations on proprietary trading, broadens the scope of derivative instruments subject to regulation, requires on-going stress tests and the submission of annual capital plans for certain organizations, requires changes to rules governing regulatory capital ratios and requires enhanced liquidity standards.

The FRB launched the 2015 capital planning and stress testing program, CCAR, on October 23, 2014. The CCAR program requires BHCs with \$50 billion or more of total consolidated assets to submit annual capital plans to the FRB for review and to conduct stress tests under a number of economic scenarios. The capital plan and stress testing results were submitted by the Bancorp to the FRB on January 5, 2015.

In March of 2015, the FRB disclosed its estimates of participating institutions results under the FRB supervisory stress scenario, including capital results, which assume all banks take certain consistently applied future capital actions. In addition, the FRB disclosed its estimates of participating institutions results under the FRB supervisory severe stress scenarios including capital results based on each company's own base scenario capital actions.

On March 11, 2015, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2015 CCAR. The FRB indicated to the Bancorp that it did not object to the following capital actions for the period beginning April 1, 2015 and ending June 30, 2016:

The potential increase in the quarterly common stock dividend to \$0.14 per share in 2016;

The potential repurchase of common shares in an amount up to \$765 million;

The additional ability to repurchase shares in the amount of any after-tax gains from the sale of Vantiv, Inc. common stock.

For more information on the 2015 CCAR results, refer to the Capital Management section of MD&A.

The BHCs that participated in the 2015 CCAR, including the Bancorp, are required to conduct mid-cycle company-run stress tests using data as of March 31, 2015. The stress tests must be based on three BHC defined scenarios – baseline, adverse and severely adverse. The Bancorp submitted the results of its mid-cycle stress test to the FRB by the required July 6, 2015 submission date. For further information on the 2015 mid-cycle stress test, see the Capital Management section of MD&A.

Fifth Third offers qualified deposit customers a deposit advance product if they choose to avail themselves of this product to meet short-term, small-dollar financial needs. In April of 2013, the CFPB issued a White Paper which studied financial services industry offerings and customer use of deposit advance products as well as payday loans and is considering whether rules governing these products are warranted. At the same time, the OCC and FDIC each issued proposed supervisory guidance for public comment to institutions they supervise which supplements existing OCC and FDIC guidance, detailing the principles they expect financial institutions to follow in connection with deposit advance products and supervisory expectations for the use of deposit advance products. The Federal Reserve also issued a statement in April of 2013 to state member banks like Fifth Third for whom the Federal Reserve is the primary regulator. This statement encouraged state member banks to respond to customers' small-dollar credit needs in a responsible manner; emphasized that they should take into consideration the risks associated with deposit advance products, including potential consumer harm and potential elevated compliance risk; and reminded them that these product offerings must comply with applicable laws and regulations.

Fifth Third's deposit advance product was designed to fully comply with the applicable federal and state laws and use of this product is subject to strict eligibility requirements and advance restriction guidelines to limit dependency on this product as a borrowing source. The Bancorp's deposit advance balances are included in other consumer loans and leases in the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A and represent the majority of the revenue reported in interest and fees on other consumer loans and leases in the Condensed Consolidated Statements of Income and in Tables 7 and 8 in the Statements of Income Analysis section of MD&A. On January 17, 2014, given developments in industry practice, Fifth Third announced that it would no longer enroll new customers in its deposit advance product and expected to phase out the service to existing customers by the end of 2014. To avoid a disruption to its existing customers during the extension period while the banking industry awaits further regulatory guidance on the deposit advance product, on November 3, 2014, Fifth Third announced changes to its current deposit advance product for existing customers beginning January 1, 2015, including a lower transaction fee, an extended repayment period and a reduced maximum advance period. The Bancorp is continuing to offer the service to existing deposit advance customers until further regulatory guidance is finalized. The Bancorp currently expects these changes to the deposit advance product to negatively impact net interest income by approximately \$95 million in 2015.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

In December of 2010 and revised in June of 2011, the BCBS issued Basel III, a global regulatory framework, to enhance international capital standards. In June of 2012, U.S. banking regulators proposed enhancements to the regulatory capital requirements for U.S. banks, which implement aspects of Basel III, such as redefining the regulatory capital elements and minimum capital ratios, introducing regulatory capital buffers above those minimums, revising the agencies' rules for calculating risk-weighted assets and introducing a new CET1 capital ratio. In July of 2013, U.S. banking regulators approved final enhanced regulatory capital requirements (Basel III Final Rule), which included modifications to the proposed rules. The Basel III Final Rule provided for certain banks, including the Bancorp, to opt out of including AOCI in Tier I capital and also retained the treatment of residential mortgage exposures consistent with the current Basel I capital rules. The Basel III Final Rule phases out the inclusion of certain TruPS as a component of Tier I capital. The Bancorp became subject to the Basel III Final Rule on January 1, 2015. The Bancorp made a one-time permanent election not to include AOCI in CET1 capital in the March 31, 2015 FFIEC 031 and FR Y-9C filings. For more information on the impact of the regulatory capital enhancements, refer to the Capital Management section of MD&A.

On December 10, 2013, the U.S. Banking Agencies finalized section 619 of the DFA, known as the Volcker Rule, which became effective April 1, 2014. Though the Final Rule was effective April 1, 2014, the FRB granted the industry an extension of time until July 21, 2015 to conform certain of its activities related to proprietary trading to comply with the Volcker Rule. In addition, the FRB has granted the industry an extension of time until July 21, 2016, and announced its intention to grant a one year extension of the conformance period until July 21, 2017, to conform certain ownership interests in, sponsorship activities of and relationships with private equity or hedge funds as well as holding certain collateralized loan obligations that were in place as of December 31, 2013. It is possible that additional conformance period extensions could be granted either to the entire industry, or, upon request, to requesting banking organizations on a case-by-case basis. The Final Rule prohibits banks and bank holding companies from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on these instruments for their own account. The Volcker Rule also restricts banks and their affiliated entities from owning, sponsoring or having certain relationships with private equity and hedge funds, as well as holding certain collateralized loan obligations that are deemed to contain ownership interests. Exemptions are provided for certain activities such as underwriting, market making, hedging, trading in certain government obligations and organizing and offering a hedge fund or private equity fund. Fifth Third does not sponsor any private equity or hedge funds that, under the Final Rule, it is prohibited from sponsoring. At September 30, 2015, the Bancorp did not hold collateralized loan obligations. At September 30, 2015, the Bancorp had approximately \$187 million in interests and approximately \$39 million in binding commitments to invest in private equity funds that are affected by the Volcker Rule. It is expected that over time the Bancorp may need to sell or redeem these investments, however no formal plan to sell has been approved as of September 30, 2015. As a result of the announced conformance period extension, the Bancorp believes it is likely that these investments will be reduced over time in the ordinary course of events before compliance is required.

On October 10, 2014, the U.S. Banking Agencies published final rules implementing a quantitative liquidity requirement consistent with the LCR standard established by the BCBS for large internationally active banking organizations, generally those with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure. In addition, a modified LCR requirement was implemented for BHCs with \$50 billion or more in total consolidated assets but that are not internationally active, such as Fifth Third. The Modified LCR is effective January 1, 2016 and requires BHCs to calculate its LCR on a monthly basis. Refer to the Liquidity

Risk Management section of MD&A for further discussion on these ratios.

On July 31, 2013, the U.S. District Court for the District of Columbia issued an order granting summary judgment to the plaintiffs in a case challenging certain provisions of the FRB's rule concerning electronic debit card transaction fees and network exclusivity arrangements (the "Current Rule") that were adopted to implement Section 1075 of the DFA, known as the Durbin Amendment. The Court held that, in adopting the Current Rule, the FRB violated the Durbin Amendment's provisions concerning which costs are allowed to be taken into account for purposes of setting fees that are reasonable and proportional to the costs incurred by the issuer and therefore the Current Rule's maximum permissible fees were too high. In addition, the Court held that the Current Rule's network non-exclusivity provisions concerning unaffiliated payment networks for debit cards also violated the Durbin Amendment. The Court vacated the Current Rule, but stayed its ruling to provide the FRB an opportunity to replace the invalidated portions. The FRB appealed this decision and on March 21, 2014, the District of Columbia Circuit Court of Appeals reversed the District Court's grant of summary judgment and remanded the case for further proceedings in accordance with its opinion. The merchants have filed a petition for writ of certiorari to the U.S. Supreme Court. However, on January 20, 2015, the U.S. Supreme Court declined to hear an appeal of the Circuit Court reversal, thereby largely upholding the Current Rule and substantially reducing uncertainty surrounding debit card interchange fees the Bancorp is permitted to charge. Refer to the Noninterest Income subsection of the Statements of Income Analysis section of MD&A for further information regarding the Bancorp's debit card interchange revenue.

### **Earnings Summary**

The Bancorp's net income available to common shareholders for the third quarter of 2015 was \$366 million, or \$0.45 per diluted share, which was net of \$15 million in preferred stock dividends. The Bancorp's net income available to common shareholders for the third quarter of 2014 was \$328 million, or \$0.39 per diluted share, which was net of \$12 million in preferred stock dividends. The Bancorp's net income available to common shareholders for the nine months ended September 30, 2015 was \$1.0 billion, or \$1.22 per diluted share, which was net of \$52 million in preferred stock dividends. For the nine months ended September 30, 2014, the Bancorp's net income available to common shareholders was \$1.1 billion, or \$1.23 per diluted share, which was net of \$44 million in preferred stock dividends. Pre-provision net revenue was \$671 million and \$1.7 billion for the three and nine months ended September 30, 2015, respectively, compared to \$535 million and \$1.7 billion for the same periods in 2014. Pre-provision net revenue is a non-GAAP measure. For further information, see the Non-GAAP Financial Measures section of MD&A.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Net interest income on an FTE basis was \$906 million and \$2.7 billion for the three and nine months ended September 30, 2015, respectively, a decrease of \$2 million and \$62 million compared to the same periods in the prior year. Net interest income was negatively impacted by decreases in net interest rate spreads, changes made to the Bancorp's deposit advance product beginning January 1, 2015 and increases in average long-term debt of \$742 million and \$2.0 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. These negative impacts were partially offset by increases in average taxable securities of \$5.7 billion and \$4.7 billion for the three and nine months ended September 30, 2015, respectively, and increases in average loans and leases of \$2.9 billion and \$1.9 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. Net interest margin on an FTE basis was 2.89% and 2.88% for the three and nine months ended September 30, 2015, respectively, compared to 3.10% and 3.16%, respectively, for the same periods in the prior year.

Noninterest income increased \$193 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to increases in other noninterest income and mortgage banking net revenue. Noninterest income increased \$80 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to increases in other noninterest income and mortgage banking net revenue partially offset by a decrease in corporate banking revenue. Other noninterest income increased \$180 million and \$78 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year driven by positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC. The positive valuation adjustment on the stock warrant associated with Vantiv Holding, LLC was \$130 million for the three months ended September 30, 2015 compared to the negative valuation adjustment of \$53 million during the three months ended September 30, 2014. The positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC were \$215 million for the nine months ended September 30, 2015 compared to the negative valuation adjustments of \$26 million during the nine months ended September 30, 2014. Mortgage banking net revenue increased \$10 million and \$26 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to increases in origination fees and gains on loan sales. The increase for the nine months ended September 30, 2015 was also driven by an increase in net mortgage servicing revenue. Corporate banking revenue decreased \$31 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily driven by impairment charges of \$36 million related to certain operating lease equipment that was recognized during the nine months ended September 30, 2015.

Noninterest expense increased \$55 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits) and other noninterest expense. Noninterest expense increased \$22 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to increases in personnel costs and card and processing expense partially offset by a decrease in other noninterest expense. Other noninterest expense increased \$22 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to increases in the provision for the reserve for unfunded commitments, FDIC insurance and other taxes, impairment on affordable housing investments and professional service fees partially offset by a decrease in losses and adjustments. Other noninterest expense decreased \$48 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to a decrease in losses and adjustments partially offset by increases in the provision for the reserve for unfunded commitments, impairment on affordable housing investments

and marketing expense. Personnel costs increased \$27 million and \$49 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year driven by increased executive retirement and severance costs as well as an increase in base compensation and an increase in incentive compensation, primarily in the commercial and mortgage businesses.

For more information on net interest income, noninterest income and noninterest expense, refer to the Statements of Income Analysis section of MD&A.

### **Credit Summary**

The provision for loan and lease losses was \$156 million and \$305 million for the three and nine months ended September 30, 2015, respectively, compared to \$71 million and \$216 million during the same periods in 2014. Net charge-offs as a percent of average portfolio loans and leases increased to 0.80% during the three months ended September 30, 2015 compared to 0.50% during the same period in the prior year and decreased to 0.53% for the nine months ended September 30, 2015 compared to 0.57% for the nine months ended September 30, 2014. At September 30, 2015, nonperforming assets as a percent of portfolio loans, leases and other assets, including OREO (excluding nonaccrual loans held for sale) decreased to 0.65% compared to 0.82% at December 31, 2014. For further discussion on credit quality, see the Credit Risk Management section of MD&A.

### **Capital Summary**

The Bancorp's capital ratios exceed the well-capitalized guidelines as defined by the FRB. At September 30, 2015, the transitional CET1 capital ratio was 9.40%, the transitional Tier I risk-based capital ratio was 10.49%, the transitional Total risk-based capital ratio was 13.68% and the transitional Tier I leverage ratio was 9.38%.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****NON-GAAP FINANCIAL MEASURES**

The following are non-GAAP measures which are important to the reader of the Condensed Consolidated Financial Statements but should be supplemental to primary U.S. GAAP measures. The Bancorp considers many factors when determining the adequacy of its liquidity profile, including its LCR as defined by the U.S. Banking Agencies Basel III LCR Final Rule. Generally, the LCR is designed to ensure banks maintain an adequate level of unencumbered HQLA to satisfy the estimated net cash outflows under a 30-day stress scenario. The Bancorp will be subject to the Modified LCR whereby the net cash outflow under the 30-day stress scenario is multiplied by a factor of 0.7. The Final Rule is not effective for the Bancorp until January 1, 2016. The Bancorp believes there is no comparable U.S. GAAP financial measure to the LCR. The Bancorp believes providing an estimated Modified LCR is important for comparability to other financial institutions. For a further discussion on liquidity management and the LCR, refer to the Liquidity Risk Management section of MD&A.

**TABLE 3: Non-GAAP Financial Measures Modified Liquidity Coverage Ratio**

|                            |                       |
|----------------------------|-----------------------|
| As of (\$ in millions)     | September 30,<br>2015 |
| Estimated HQLA             | \$ 21,518             |
| Estimated net cash outflow | 20,182                |
| Estimated Modified LCR     | 107%                  |

Pre-provision net revenue is net interest income plus noninterest income minus noninterest expense. The Bancorp believes this measure is important because it provides a ready view of the Bancorp's pre-tax earnings before the impact of provision expense.

The following table reconciles the non-GAAP financial measure of pre-provision net revenue to U.S. GAAP:

**TABLE 4: Non-GAAP Financial Measures Pre-Provision Net Revenue**

| (\$ in millions)                | For the three months ended<br>September 30, |       | For the nine months ended<br>September 30, |         |
|---------------------------------|---|-------|--|---------|
|                                 | 2015  | 2014  | 2015                                       | 2014    |
| Net interest income (U.S. GAAP) | \$ 901                                      | 903   | 2,636                                      | 2,697   |
| Add: Noninterest income         | 713   | 520   | 1,900                                      | 1,820   |
| Less: Noninterest expense       | (943)                                       | (888) | (2,814)                                    | (2,792) |
| Pre-provision net revenue       | \$ 671                                      | 535   | 1,722                                      | 1,725   |

The Bancorp believes return on average tangible common equity is an important measure for comparative purposes with other financial institutions, but is not defined under U.S. GAAP, and therefore is considered a non-GAAP financial measure.

The following table reconciles the non-GAAP financial measure of return on average tangible common equity to U.S. GAAP:

**TABLE 5: Non-GAAP Financial Measures Return on Average Tangible Common Equity**

| (\$ in millions)  | For the three months ended<br>September 30, |         | For the nine months ended<br>September 30, |         |
|---|---|---------|--|---------|
|   | 2015  | 2014    | 2015                                       | 2014    |
| Net income available to common shareholders (U.S. GAAP)               | \$ 366                                      | 328     | 1,004                                      | 1,052   |
| Add: Intangible amortization, net of tax                              |   | 1       | 1  | 2       |
| Tangible net income available to common shareholders                  | \$ 366                                      | 329     | 1,005                                      | 1,054   |
| Tangible net income available to common shareholders (annualized) (1) | 1,452                                       | 1,305   | 1,340                                      | 1,405   |
| Average Bancorp shareholders' equity (U.S. GAAP)                      | \$ 15,815                                   | 15,486  | 15,826                                     | 15,170  |
| Less: Average preferred stock   | (1,331)                                     | (1,331) | (1,331)                                    | (1,163) |
| Average goodwill  | (2,416)                                     | (2,416) | (2,416)                                    | (2,416) |
| Average intangible assets and other servicing rights                  | (14)  | (16)    | (15)                                       | (18)    |
| Average tangible common equity (2)                                    | \$ 12,054                                   | 11,723  | 12,064                                     | 11,573  |
| Return on average tangible common equity (1) / (2)                    | 12.0 %                                      | 11.1    | 11.1                                       | 12.2    |

The Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio and tangible common equity ratio, in addition to capital ratios defined by banking regulators. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because U.S. GAAP does not include capital ratio measures, the Bancorp believes there are no comparable U.S. GAAP financial measures to these ratios. These ratios are not formally defined by U.S. GAAP or codified in the federal banking regulations and, therefore, are considered to be non-GAAP financial measures. Additionally, the Bancorp became subject to the Basel III Final Rule on January 1, 2015. The CET1 capital ratio is a new measure defined by the banking regulatory agencies under the Basel III Final Rule. The CET1 capital ratio has transition provisions that will be phased out over time. The Bancorp is presenting the CET1 capital ratio on a fully phased-in basis for comparative purposes with other organizations. Since analysts and banking regulators may assess the Bancorp's capital adequacy using these ratios, the Bancorp believes they are useful to provide investors the ability to assess its capital adequacy on the same basis. The Bancorp encourages readers to consider its Condensed Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table reconciles non-GAAP capital ratios to U.S. GAAP:

**TABLE 6: Non-GAAP Financial Measures Capital Ratios**

| As of (\$ in millions)  | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| <b>Total Bancorp shareholders' equity (U.S. GAAP)</b>           | <b>\$ 15,826</b>      | 15,626               |
| Less: Preferred stock   | (1,331)               | (1,331)              |
| Goodwill  | (2,416)               | (2,416)              |
| Intangible assets and other servicing rights                    | (13)                  | (16)                 |
| Tangible common equity, including unrealized gains / losses     | <b>12,066</b>         | 11,863               |
| Less: AOCI  | (522)                 | (429)                |
| Tangible common equity, excluding unrealized gains / losses (1) | <b>11,544</b>         | 11,434               |
| Add: Preferred stock  | <b>1,331</b>          | 1,331                |
| Tangible equity (2)   | <b>\$ 12,875</b>      | 12,765               |
| <b>Total assets (U.S. GAAP)</b>                                 | <b>\$ 141,918</b>     | 138,706              |
| Less: Goodwill  | (2,416)               | (2,416)              |
| Intangible assets and other servicing rights                    | (13)                  | (16)                 |
| AOCI, before tax  | (803)                 | (660)                |
| Tangible assets, excluding unrealized gains / losses (3)        | <b>\$ 138,686</b>     | 135,614              |
| <b>Total Bancorp shareholders' equity (U.S. GAAP)</b>           | <b>\$ N/A</b>         | 15,626               |
| Less: Goodwill and certain other intangibles                    | N/A                   | (2,476)              |
| Unrealized gains  | N/A                   | (429)                |
| Add: Qualifying TruPS   | N/A                   | 60                   |
| Other   | N/A                   | (17)                 |
| Tier I risk-based capital                                       | N/A                   | 12,764               |
| Less: Preferred stock   | N/A                   | (1,331)              |
| Qualifying TruPS  | N/A                   | (60)                 |
| Qualified noncontrolling interests in consolidated subsidiaries | N/A                   | (1)                  |
| Tier I common equity (4)  | <b>\$ N/A</b>         | 11,372               |

|   | <b>Basel III<br/>Transitional</b> | <b>Basel I</b> |
|---|-----------------------------------|----------------|
| Risk-weighted assets (5) <sup>(a)</sup> | <b>\$ 123,148</b>                 | 117,878        |

**Ratios:**

|  |               |      |
|--|---------------|------|
| Tangible equity as a percent of tangible assets (2) / (3)  | <b>9.28 %</b> | 9.41 |
| Tangible common equity as a percent of tangible assets (excluding unrealized gains/losses) (1) / (3) | <b>8.32 %</b> | 8.43 |
| Tier I common equity (4) / (5) <sup>(b)</sup>  | <b>N/A %</b>  | 9.65 |

**Basel III Final Rule Transition to fully phased-in**

|  |                   |     |
|--|-------------------|-----|
| CET1 capital (transitional)  | <b>\$ 11,574</b>  | N/A |
| Less: Adjustments to CET1 capital from transitional to fully phased-in <sup>(c)</sup>        | <b>(11)</b>       | N/A |
| CET1 capital (fully phased-in) (6)   | <b>11,563</b>     | N/A |
| Risk-weighted assets (transitional)  | <b>123,148</b>    | N/A |
| Add: Adjustments to risk-weighted assets from transitional to fully phased-in <sup>(d)</sup> | <b>1,136</b>      | N/A |
| Risk-weighted assets (fully phased-in) (7)   | <b>\$ 124,284</b> | N/A |
| Estimated CET1 capital ratio under Basel III Final Rule (fully phased-in) (6) / (7)          | <b>9.30 %</b>     | N/A |

(a) Under the banking agencies' risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet exposures are assigned to broad risk categories. The aggregate dollar amount in each risk category is multiplied by the associated risk-weight of the category. The resulting weighted values are added together, along with the measure for market risk, resulting in the Bancorp's total risk-weighted assets.

(b) The Bancorp became subject to the Basel III Final Rule on January 1, 2015. This codified in the federal banking regulations the risk-based capital ratios the Bancorp is now subject to, as such these ratios are no longer considered non-GAAP measures.

(c) Primarily relates to disallowed intangible assets (other than goodwill and MSRs, net of associated deferred tax liabilities).

(d) Primarily relates to higher risk weighting for MSRs.

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**RECENT ACCOUNTING STANDARDS**

Note 3 of the Notes to Condensed Consolidated Financial Statements provides a discussion of the significant new accounting standards applicable to the Bancorp and the expected impact of significant accounting standards issued, but not yet required to be adopted.

**CRITICAL ACCOUNTING POLICIES**

The Condensed Consolidated Financial Statements are prepared in accordance with U.S. GAAP. Certain accounting policies require management to exercise judgment in determining methodologies, economic assumptions and estimates that may materially affect the Bancorp's financial position, results of operations and cash flows. The Bancorp's critical accounting policies include the accounting for the ALLL, reserve for unfunded commitments, income taxes, valuation of servicing rights, fair value measurements, goodwill and legal contingencies. These accounting policies are discussed in detail in Management's Discussion and Analysis - Critical Accounting Policies in the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014. No material changes were made to the valuation techniques or models during the nine months ended September 30, 2015.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****STATEMENTS OF INCOME ANALYSIS****Net Interest Income**

Net interest income is the interest earned on securities, loans and leases (including yield-related fees) and other interest-earning assets less the interest paid for core deposits (includes transaction deposits and other time deposits) and wholesale funding (includes certificates \$100,000 and over, other deposits, federal funds purchased, other short-term borrowings and long-term debt). The net interest margin is calculated by dividing net interest income by average interest-earning assets. Net interest rate spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is typically greater than net interest rate spread due to the interest income earned on those assets that are funded by noninterest-bearing liabilities, or free funding, such as demand deposits or shareholders' equity.

Tables 7 and 8 present the components of net interest income, net interest margin and net interest rate spread for the three and nine months ended September 30, 2015 and 2014, as well as the relative impact of changes in the balance sheet and changes in interest rates on net interest income. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale and other securities included in other assets.

Net interest income on an FTE basis was \$906 million and \$2.7 billion for the three and nine months ended September 30, 2015, respectively, a decrease of \$2 million and \$62 million compared to the same periods in the prior year. Net interest income was negatively impacted by decreases in net interest rate spreads, changes made to the Bancorp's deposit advance product beginning January 1, 2015 and increases in average long-term debt of \$742 million and \$2.0 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. These negative impacts were partially offset by increases in average taxable securities of \$5.7 billion and \$4.7 billion for the three and nine months ended September 30, 2015, respectively, and increases in average loans and leases of \$2.9 billion and \$1.9 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The net interest rate spread decreased to 2.71% and 2.70% during the three and nine months ended September 30, 2015, respectively, from 2.93% and 2.99% in the same periods in the prior year due to a 20 bps and 25 bps decrease in yields on average interest-earning assets for the three and nine months ended September 30, 2015, respectively, and a 2 bps and 4 bps increase in the rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year.

Net interest margin on an FTE basis was 2.89% and 2.88% for the three and nine months ended September 30, 2015, respectively, compared to 3.10% and 3.16% for the three and nine months ended September 30, 2014, respectively. The decrease from both periods in 2014 was driven primarily by the previously mentioned decrease in net interest rate spreads coupled with an \$8.1 billion and \$7.9 billion increase in average interest-earning assets for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year partially offset by increases in average free funding balances. The increase in average free funding balances for both periods was driven by an increase in average demand deposits of \$3.4 billion and \$3.6 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year as well as an increase in average

shareholders' equity of \$322 million and \$653 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year.

Interest income on an FTE basis from loans and leases decreased \$32 million compared to the three months ended September 30, 2014 and decreased \$122 million compared to the nine months ended September 30, 2014. The decrease for both the three and nine months ended September 30, 2015 was primarily the result of a decrease of 25 bps in yields on average loans and leases partially offset by increases of 3% and 2% in average loans and leases for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The decrease in yields for the three and nine months ended September 30, 2015 was primarily due to a \$24 million and \$71 million, respectively, decline in interest income on other consumer loans and leases due to changes made to the Bancorp's deposit advance product beginning January 1, 2015. The decrease for the three and nine months ended September 30, 2015 also included a 14 bps and 15 bps, respectively, decrease in yields on average commercial and industrial loans and a 21 bps and 19 bps, respectively, decrease in yields on average residential mortgage loans compared to the same periods in the prior year. The increase in average loans and leases for both periods was driven primarily by increases in average commercial loans and leases and average residential mortgage loans. For more information on the Bancorp's loan and lease portfolio, refer to the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A. Interest income from investment securities and other short-term investments increased \$40 million and \$100 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily as a result of the aforementioned increases in average taxable securities.

Interest expense on core deposits decreased \$8 million and \$5 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year as a decline in the cost of average interest-bearing core deposits more than offset an increase in average interest-bearing core deposits. The cost of average interest-bearing core deposits decreased to 22 bps and 24 bps for the three and nine months ended September 30, 2015, respectively, from 28 bps and 26 bps for the three and nine months ended September 30, 2014, respectively. Average interest-bearing core deposits increased \$2.1 billion and \$3.1 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase from both the three and nine months ended September 30, 2014 was primarily due to increases in average money market deposits and average interest checking deposits partially offset by decreases in average savings deposits and average foreign office deposits. Refer to the Deposits subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp's deposits.

For the three and nine months ended September 30, 2015, interest expense on average wholesale funding increased \$18 million and \$45 million, respectively, compared to the same periods in the prior year. The increase for the three and nine months ended September 30, 2015 was primarily the result of a \$742 million and \$2.0 billion, respectively, increase in average long-term debt coupled with a 35 bps and 17 bps, respectively, increase in the rates paid on average long-term debt compared to the same periods in the prior year. Refer to the Borrowings subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp's borrowings.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

During the three and nine months ended September 30, 2015, average wholesale funding represented 25% and 23%, respectively, of average interest-bearing liabilities compared to 24% during both the three and nine months ended September 30, 2014. For more information on the Bancorp's interest rate risk management, including estimated earnings sensitivity to changes in market interest rates, see the Market Risk Management section of MD&A.

**TABLE 7: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE basis**

| For the three months ended              | September 30, 2015 |               |                     | September 30, 2014 |               |                     | Attribution of Change in Net Interest Income <sup>(a)</sup> |            |       |
|---|--------------------|---------------|---------------------|--------------------|---------------|---------------------|---|------------|-------|
|   | Average Balance    | Revenue/ Cost | Average Yield/ Rate | Average Balance    | Revenue/ Cost | Average Yield/ Rate | Volume  | Yield/Rate | Total |
| (\$ in millions)                        |                    |               |                     |                    |               |                     |   |            |       |
| <b>Assets</b>                           |                    |               |                     |                    |               |                     |   |            |       |
| Interest-earning assets:                |                    |               |                     |                    |               |                     |   |            |       |
| Loans and leases: <sup>(b)</sup>        |                    |               |                     |                    |               |                     |   |            |       |
| Commercial and industrial loans         | \$ 43,162          | 339           | 3.11 %              | \$ 41,525          | 340           | 3.25 %              | \$ 14   | (15)       | (1)   |
| Commercial mortgage loans               | 7,038              | 56            | 3.17                | 7,637              | 64            | 3.34                | (5)   | (3)        | (8)   |
| Commercial construction loans           | 2,966              | 23            | 3.13                | 1,565              | 14            | 3.49                | 11  | (2)        | 9     |
| Commercial leases                       | 3,847              | 27            | 2.72                | 3,576              | 27            | 2.96                | 2   | (2)        |       |
| Subtotal commercial                     | 57,013             | 445           | 3.09                | 54,303             | 445           | 3.25                | 22  | (22)       |       |
| Residential mortgage loans              | 13,976             | 128           | 3.63                | 13,342             | 129           | 3.84                | 6   | (7)        | (1)   |
| Home equity                             | 8,521              | 78            | 3.61                | 9,009              | 84            | 3.69                | (4)   | (2)        | (6)   |
| Automobile loans                        | 11,881             | 79            | 2.62                | 12,105             | 83            | 2.72                | (1)   | (3)        | (4)   |
| Credit card                             | 2,277              | 60            | 10.38               | 2,295              | 57            | 9.87                |   | 3          | 3     |
| Other consumer loans and leases         | 661                | 10            | 6.81                | 374                | 34            | 36.98               | 16  | (40)       | (24)  |
| Subtotal consumer                       | 37,316             | 355           | 3.78                | 37,125             | 387           | 4.14                | 17  | (49)       | (32)  |
| Total loans and leases                  | \$ 94,329          | 800           | 3.36 %              | \$ 91,428          | 832           | 3.61 %              | \$ 39   | (71)       | (32)  |
| Securities:                             |                    |               |                     |                    |               |                     |   |            |       |
| Taxable                                 | 28,251             | 229           | 3.23                | 22,594             | 188           | 3.32                | 46  | (5)        | 41    |
| Exempt from income taxes <sup>(b)</sup> | 52                 | 1             | 5.20                | 50                 | 1             | 5.34                |   |            |       |
| Other short-term investments            | 1,799              | 1             | 0.23                | 2,283              | 2             | 0.26                | (1)   |            | (1)   |
| Total interest-earning assets           | \$ 124,431         | 1,031         | 3.29 %              | \$ 116,355         | 1,023         | 3.49 %              | \$ 84   | (76)       | 8     |
| Cash and due from banks                 | 2,503              |               |                     | 2,862              |               |                     |   |            |       |
| Other assets                            | 15,097             |               |                     | 14,461             |               |                     |   |            |       |

Edgar Filing: FIFTH THIRD BANCORP - Form 10-Q

|   |            |     |        |           |     |        |        |      |     |
|---|------------|-----|--------|-----------|-----|--------|--------|------|-----|
| Allowance for loan and lease losses                     | (1,292)    |     |        | (1,458)   |     |        |        |      |     |
| Total assets  | \$ 140,739 |     |        | 132,220   |     |        |        |      |     |
| <b>Liabilities and Equity</b>                           |            |     |        |           |     |        |        |      |     |
| Interest-bearing liabilities:                           |            |     |        |           |     |        |        |      |     |
| Interest checking deposits                              | \$ 25,590  | 11  | 0.18 % | \$ 24,926 | 14  | 0.22 % | \$ (3) | (3)  |     |
| Savings deposits  | 14,868     | 2   | 0.05   | 15,759    | 4   | 0.09   | (1)    | (1)  | (2) |
| Money market deposits                                   | 18,253     | 10  | 0.21   | 15,222    | 14  | 0.37   | 3      | (7)  | (4) |
| Foreign office deposits                                 | 718        |     | 0.14   | 1,663     | 1   | 0.29   | (1)    |      | (1) |
| Other time deposits                                     | 4,057      | 12  | 1.19   | 3,800     | 10  | 1.07   | 1      | 1    | 2   |
| Subtotal - interest-bearing core deposits               | 63,486     | 35  | 0.22   | 61,370    | 43  | 0.28   | 2      | (10) | (8) |
| Certificates \$100,000 and over                         | 2,924      | 9   | 1.16   | 3,339     | 8   | 0.96   | (1)    | 2    | 1   |
| Other deposits  | 222        |     | 0.16   |           |     |        |        |      |     |
| Federal funds purchased                                 | 1,978      |     | 0.14   | 520       |     | 0.09   |        |      |     |
| Other short-term borrowings                             | 1,897      | 1   | 0.13   | 1,973     | 1   | 0.10   |        |      |     |
| Long-term debt  | 14,697     | 80  | 2.15   | 13,955    | 63  | 1.80   | 4      | 13   | 17  |
| Total interest-bearing liabilities                      | \$ 85,204  | 125 | 0.58 % | \$ 81,157 | 115 | 0.56 % | \$ 5   | 5    | 10  |
| Demand deposits   | 35,231     |     |        | 31,790    |     |        |        |      |     |
| Other liabilities                                       | 4,458      |     |        | 3,749     |     |        |        |      |     |
| Total liabilities                                       | \$ 124,893 |     |        | 116,696   |     |        |        |      |     |
| Total equity  | \$ 15,846  |     |        | 15,524    |     |        |        |      |     |
| Total liabilities and equity                            | \$ 140,739 |     |        | 132,220   |     |        |        |      |     |
| Net interest income (FTE)                               | \$ 906     |     |        | 908       |     |        | 79     | (81) | (2) |
| Net interest margin (FTE)                               |            |     | 2.89 % |           |     | 3.10 % |        |      |     |
| Net interest rate spread (FTE)                          |            |     | 2.71   |           |     | 2.93   |        |      |     |
| Interest-bearing liabilities to interest-earning assets |            |     | 68.47  |           |     | 69.75  |        |      |     |

(a) Changes in interest not solely due to volume or yield/rate are allocated in proportion to the absolute dollar amount of change in volume and yield/rate.

(b) The FTE adjustments included in the above table were \$5 for both the three months ended **September 30, 2015** and 2014.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 8: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE basis**

| For the nine months ended               | September 30, 2015 |               |                     | September 30, 2014 |               |                     | Attribution of Change in Net Interest Income <sup>(a)</sup> |            |       |
|---|--------------------|---------------|---------------------|--------------------|---------------|---------------------|---|------------|-------|
|   | Average Balance    | Revenue/ Cost | Average Yield/ Rate | Average Balance    | Revenue/ Cost | Average Yield/ Rate | Volume  | Yield/Rate | Total |
| (\$ in millions)                        |                    |               |                     |                    |               |                     |   |            |       |
| <b>Assets</b>                           |                    |               |                     |                    |               |                     |   |            |       |
| Interest-earning assets:                |                    |               |                     |                    |               |                     |   |            |       |
| Loans and leases: <sup>(b)</sup>        |                    |               |                     |                    |               |                     |   |            |       |
| Commercial and industrial loans         | \$ 42,399          | 995           | 3.14 %              | \$ 41,133          | 1,012         | 3.29 %              | \$ 31   | (48)       | (17)  |
| Commercial mortgage loans               | 7,144              | 172           | 3.22                | 7,834              | 198           | 3.39                | (17)  | (9)        | (26)  |
| Commercial construction loans           | 2,574              | 61            | 3.17                | 1,351              | 35            | 3.50                | 30  | (4)        | 26    |
| Commercial leases                       | 3,780              | 80            | 2.82                | 3,580              | 81            | 3.03                | 5   | (6)        | (1)   |
| Subtotal commercial                     | 55,897             | 1,308         | 3.13                | 53,898             | 1,326         | 3.29                | 49  | (67)       | (18)  |
| Residential mortgage loans              | 13,624             | 378           | 3.71                | 13,283             | 388           | 3.90                | 9   | (19)       | (10)  |
| Home equity                             | 8,658              | 236           | 3.64                | 9,101              | 253           | 3.71                | (12)  | (5)        | (17)  |
| Automobile loans                        | 11,905             | 236           | 2.65                | 12,066             | 251           | 2.78                | (3)   | (12)       | (15)  |
| Credit card                             | 2,298              | 177           | 10.31               | 2,252              | 168           | 9.94                | 3   | 6          | 9     |
| Other consumer loans/leases             | 537                | 34            | 8.45                | 373                | 105           | 37.48               | 33  | (104)      | (71)  |
| Subtotal consumer                       | 37,022             | 1,061         | 3.83                | 37,075             | 1,165         | 4.20                | 30  | (134)      | (104) |
| Total loans and leases                  | \$ 92,919          | 2,369         | 3.41 %              | \$ 90,973          | 2,491         | 3.66 %              | \$ 79   | (201)      | (122) |
| Securities:                             |                    |               |                     |                    |               |                     |   |            |       |
| Taxable                                 | 26,251             | 635           | 3.24                | 21,570             | 537           | 3.33                | 113   | (15)       | 98    |
| Exempt from income taxes <sup>(b)</sup> | 57                 | 2             | 5.08                | 50                 | 2             | 5.16                |   |            |       |
| Other short-term investments            | 3,597              | 7             | 0.25                | 2,324              | 5             | 0.27                | 2   |            | 2     |
| Total interest-earning assets           | \$ 122,824         | 3,013         | 3.28 %              | \$ 114,917         | 3,035         | 3.53 %              | \$ 194  | (216)      | (22)  |
| Cash and due from banks                 | 2,655              |               |                     | 2,853              |               |                     |   |            |       |
| Other assets                            | 15,297             |               |                     | 14,451             |               |                     |   |            |       |
| Allowance for loan and lease losses     | (1,304)            |               |                     | (1,504)            |               |                     |   |            |       |
| Total assets                            | \$ 139,472         |               |                     | 130,717            |               |                     |   |            |       |

**Liabilities and Equity**

## Interest-bearing liabilities:

|   |            |     |        |           |     |        |       |       |      |
|---|------------|-----|--------|-----------|-----|--------|-------|-------|------|
| Interest checking deposits                              | \$ 26,452  | 38  | 0.19 % | \$ 25,349 | 42  | 0.22 % | \$ 2  | (6)   | (4)  |
| Savings deposits  | 15,065     | 7   | 0.06   | 16,386    | 12  | 0.10   |       | (5)   | (5)  |
| Money market deposits                                   | 17,942     | 34  | 0.25   | 13,878    | 35  | 0.33   | 8     | (9)   | (1)  |
| Foreign office deposits                                 | 844        | 1   | 0.16   | 1,959     | 4   | 0.29   | (2)   | (1)   | (3)  |
| Other time deposits                                     | 4,051      | 36  | 1.20   | 3,704     | 28  | 1.03   | 3     | 5     | 8    |
| Subtotal - interest-bearing core deposits               | 64,354     | 116 | 0.24   | 61,276    | 121 | 0.26   | 11    | (16)  | (5)  |
| Certificates \$100,000 and over                         | 2,722      | 24  | 1.19   | 4,243     | 26  | 0.81   | (12)  | 10    | (2)  |
| Other deposits  | 75         |     | 0.16   |           |     | 0.02   |       |       |      |
| Federal funds purchased                                 | 832        |     | 0.13   | 558       |     | 0.09   |       |       |      |
| Other short-term borrowings                             | 1,736      | 2   | 0.12   | 2,006     | 2   | 0.10   |       |       |      |
| Long-term debt  | 14,306     | 221 | 2.07   | 12,277    | 174 | 1.90   | 30    | 17    | 47   |
| Total interest-bearing liabilities                      | \$ 84,025  | 363 | 0.58 % | \$ 80,360 | 323 | 0.54 % | \$ 29 | 11    | 40   |
| Demand deposits   | 34,797     |     |        | 31,235    |     |        |       |       |      |
| Other liabilities                                       | 4,788      |     |        | 3,913     |     |        |       |       |      |
| Total liabilities                                       | \$ 123,610 |     |        | 115,508   |     |        |       |       |      |
| Total equity  | \$ 15,862  |     |        | 15,209    |     |        |       |       |      |
| Total liabilities and equity                            | \$ 139,472 |     |        | 130,717   |     |        |       |       |      |
| Net interest income (FTE)                               | \$ 2,650   |     |        | 2,712     |     |        | 165   | (227) | (62) |
| Net interest margin (FTE)                               |            |     | 2.88 % |           |     | 3.16 % |       |       |      |
| Net interest rate spread (FTE)                          |            |     | 2.70   |           |     | 2.99   |       |       |      |
| Interest-bearing liabilities to interest-earning assets |            |     | 68.41  |           |     | 69.93  |       |       |      |

(a) Changes in interest not solely due to volume or yield/rate are allocated in proportion to the absolute dollar amount of change in volume and yield/rate.

(b) The FTE adjustments included in the above table were \$14 and \$15 for the nine months ended September 30, 2015 and 2014, respectively.

**Provision for Loan and Lease Losses**

The Bancorp provides as an expense an amount for probable losses within the loan and lease portfolio that is based on factors previously discussed in the Critical Accounting Policies section of the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014. The provision is recorded to bring the ALLL to a level deemed appropriate by the Bancorp to cover losses inherent in the portfolio. Actual credit losses on loans and leases are charged against the ALLL. The amount of loans and leases actually removed from the Condensed Consolidated Balance Sheets is referred to as charge-offs. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

The provision for loan and lease losses was \$156 million and \$305 million for the three and nine months ended September 30, 2015, respectively, compared to \$71 million and \$216 million during the same periods in the prior year. The increase for both periods relates to the restructuring of a student loan backed commercial credit originated in 2007, a broadening global economic slowdown, stress on capital markets and the prolonged softness in commodity prices. The ALLL declined \$61 million from December 31, 2014 to \$1.3 billion at September 30, 2015. At September 30, 2015, the ALLL as a percent of portfolio loans and leases decreased to 1.35%, compared to 1.47% at

December 31, 2014.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Refer to the Credit Risk Management section of MD&A as well as Note 6 of the Notes to Condensed Consolidated Financial Statements for more detailed information on the provision for loan and lease losses, including an analysis of loan and lease portfolio composition, nonperforming assets, net charge-offs and other factors considered by the Bancorp in assessing the credit quality of the loan and lease portfolio and the ALLL.

**Noninterest Income**

Noninterest income increased \$193 million, or 37%, for the three months ended September 30, 2015 compared to the same period in the prior year and increased \$80 million, or 4%, for the nine months ended September 30, 2015 compared to the same period in the prior year.

The components of noninterest income for the three and nine months ended September 30, 2015 and 2014 are as follows:

**TABLE 9: Noninterest Income**

| (\$ in millions)             | For the three months ended<br>September 30, |      |          | For the nine months ended<br>September 30, |       |          |
|------------------------------|---|------|----------|--|-------|----------|
|                              | 2015  | 2014 | % Change | 2015                                       | 2014  | % Change |
| Service charges on deposits  | \$ 145                                      | 145  |          | \$ 419                                     | 418   |          |
| Investment advisory revenue  | 103   | 103  |          | 315  | 307   | 3        |
| Corporate banking revenue    | 104   | 100  | 4        | 280  | 311   | (10)     |
| Mortgage banking net revenue | 71  | 61   | 16       | 274  | 248   | 10       |
| Card and processing revenue  | 77  | 75   | 3        | 225  | 218   | 3        |
| Other noninterest income     | 213   | 33   | NM       | 378  | 300   | 26       |
| Securities gains, net        |   | 3    | (100)    | 9  | 18    | (50)     |
| Total noninterest income     | \$ 713                                      | 520  | 37       | \$ 1,900                                   | 1,820 | 4        |

*Service charges on deposits*

Service charges on deposits were flat for the three months ended September 30, 2015 and increased \$1 million for the nine months ended September 30, 2015 compared to the same period in the prior year, primarily due to an increase in consumer overdraft fees.

*Investment advisory revenue*

Investment advisory revenue was flat for the three months ended September 30, 2015 and increased \$8 million for nine months ended September 30, 2015, compared to the same periods in the prior year. The increase for the nine months ended September 30, 2015 was primarily driven by an increase of \$6 million in recurring securities brokerage

fees driven by higher sales volume. The nine months ended September 30, 2015 also included a \$2 million increase in private client service fees due to an increase in personal asset management fees compared to the same period in the prior year. The Bancorp had approximately \$297 billion and \$303 billion in total assets under care at September 30, 2015 and 2014, respectively, and managed \$25 billion and \$26 billion in assets for individuals, corporations and not-for-profit organizations at September 30, 2015 and 2014, respectively.

*Corporate banking revenue*

Corporate banking revenue increased \$4 million for the three months ended September 30, 2015, compared to the same period in the prior year primarily due to increases in institutional sales revenue and loan syndications revenue, partially offset by lower foreign exchange fees. Corporate banking revenue decreased \$31 million for the nine months ended September 30, 2015 compared to the same period in the prior year, primarily driven by impairment charges of \$36 million related to certain operating lease equipment that was recognized during the nine months ended September 30, 2015. Refer to Note 8 of the Notes to Condensed Consolidated Financial Statements for additional information. The nine months ended September 30, 2015 also included an \$18 million decrease in syndication fees as a result of decreased activity in the market. The decreases for the nine months ended September 30, 2015 were partially offset by higher institutional sales revenue, interest rate derivative fees, foreign exchange fees and business lending fees compared to the same period in the prior year.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Mortgage banking net revenue*

Mortgage banking net revenue increased \$10 million and \$26 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year.

The components of mortgage banking net revenue are as follows:

**TABLE 10: Components of Mortgage Banking Net Revenue**

| (\$ in millions)  | For the three months ended<br>September 30, |      | For the nine months ended<br>September 30, |      |
|---|---|------|--|------|
|   | 2015  | 2014 | 2015                                       | 2014 |
| Origination fees and gains on loan sales  | \$ 46                                       | 34   | 134  | 117  |
| Net mortgage servicing revenue:   |   |      |  |      |
| Gross mortgage servicing fees   | 54  | 61   | 169  | 186  |
| MSR amortization  | (37)  | (33) | (110)                                      | (88) |
| Net valuation adjustments on MSRs and free-standing derivatives entered into to economically hedge MSRs | 8   | (1)  | 81   | 33   |
| Net mortgage servicing revenue  | 25  | 27   | 140  | 131  |
| Mortgage banking net revenue  | \$ 71                                       | 61   | 274  | 248  |

Origination fees and gains on loan sales increased \$12 million and \$17 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three and nine months ended September 30, 2015 was primarily the result of a 10% and 14% increase in residential mortgage loan originations from the same periods in the prior year. Residential mortgage loan originations increased to \$2.3 billion and \$6.6 billion during the three and nine months ended September 30, 2015, respectively, compared to \$2.1 billion and \$5.8 billion during the same periods in the prior year due to strong refinancing activity that occurred during the nine months ended September 30, 2015.

Net mortgage servicing revenue is comprised of gross mortgage servicing fees and related MSR amortization as well as valuation adjustments on MSRs and mark-to-market adjustments on both settled and outstanding free-standing derivative financial instruments used to economically hedge the MSR portfolio. Net mortgage servicing revenue decreased \$2 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 driven primarily by a decrease of \$7 million in gross mortgage servicing fees and an increase of \$4 million in MSR amortization, partially offset by an increase of \$9 million in net valuation adjustments. Net mortgage servicing revenue increased \$9 million for the nine months ended September 30, 2015 compared to the same period in the prior year driven primarily by an increase of \$48 million in net valuation adjustments partially offset by an increase in MSR amortization of \$22 million and a decrease in gross mortgage servicing fees of \$17 million.

The components of net valuation adjustments on the MSR portfolio and the impact of the non-qualifying hedging strategy are as follows:

**TABLE 11: Components of Net Valuation Adjustments on MSRs**

| (\$ in millions)  | For the three months ended |      | For the nine months ended |      |
|---|----------------------------|------|---------------------------|------|
|   | September 30,              |      | September 30,             |      |
|   | 2015                       | 2014 | 2015                      | 2014 |
| Changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio | \$ 85                      | (22) | 119                       | 40   |
| (Provision for) recovery of MSR impairment  | (77)                       | 21   | (38)                      | (7)  |
| Net valuation adjustments on MSR and free-standing derivatives entered into to economically hedge MSRs              | \$ 8                       | (1)  | 81                        | 33   |

Mortgage rates decreased during the three and nine months ended September 30, 2015 and during the nine months ended September 30, 2014 which caused modeled prepayment speeds to increase, which led to temporary impairment on servicing rights during the respective periods. Mortgage rates increased during the three months ended September 30, 2014 which caused modeled prepayment speeds to slow, which led to the recovery of temporary impairment on servicing rights during the period.

Servicing rights are deemed impaired when a borrower's loan rate is distinctly higher than prevailing rates. Impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower's loan rate. Further detail on the valuation of MSRs can be found in Note 12 of the Notes to Condensed Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in the valuation on the MSR portfolio. Refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for more information on the free-standing derivatives used to economically hedge the MSR portfolio.

The Bancorp's total residential loans serviced at September 30, 2015 and 2014 were \$74.5 billion and \$80.3 billion, respectively, with \$60.3 billion and \$66.8 billion, respectively, of residential mortgage loans serviced for others.

#### *Card and processing revenue*

Card and processing revenue increased \$2 million and \$7 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three and nine months ended September 30, 2015 was primarily the result of an increase in the number of actively used cards and an increase in customer spend volume. Debit card interchange revenue, included in card and processing revenue, was \$35 million and \$102 million for the three and nine months ended September 30, 2015, respectively, compared to \$32 million and \$95 million for the same periods in the prior year.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Other noninterest income*

The major components of other noninterest income are as follows:

**TABLE 12: Components of Other Noninterest Income**

| (\$ in millions)  | For the three months ended the months ended |      |                              |      |
|---|---|------|------------------------------|------|
|   | September 30,<br><b>2015</b>                | 2014 | September 30,<br><b>2015</b> | 2014 |
| Valuation adjustments on the warrant associated with Vantiv Holding, LLC        | <b>\$ 130</b>                               | (53) | <b>215</b>                   | (26) |
| Operating lease income  | <b>22</b>                                   | 21   | <b>66</b>                    | 63   |
| Equity method income from interest in Vantiv Holding, LLC                       | <b>17</b>                                   | 13   | <b>42</b>                    | 33   |
| Gain (loss) on loan sales   | <b>(1)</b>                                  |      | <b>40</b>                    |      |
| BOLI income   | <b>12</b>                                   | 11   | <b>37</b>                    | 32   |
| Cardholder fees   | <b>11</b>                                   | 11   | <b>33</b>                    | 34   |
| Private equity investment income  | <b>12</b>                                   | 10   | <b>21</b>                    | 20   |
| Consumer loan and lease fees  | <b>6</b>                                    | 7    | <b>18</b>                    | 19   |
| Banking center income   | <b>6</b>                                    | 8    | <b>16</b>                    | 23   |
| Insurance income  | <b>3</b>                                    | 3    | <b>11</b>                    | 9    |
| Gain on sale of Vantiv, Inc. shares   |   |      |                              | 125  |
| Net (losses) gains on disposition and impairment of bank premises and equipment | <b>(1)</b>                                  | 1    | <b>(102)</b>                 | (16) |
| Loss on swap associated with the sale of Visa, Inc. class B shares              | <b>(8)</b>                                  | (3)  | <b>(27)</b>                  | (19) |
| Other, net  | <b>4</b>                                    | 4    | <b>8</b>                     | 3    |
| <b>Total other noninterest income</b>   | <b>\$ 213</b>                               | 33   | <b>378</b>                   | 300  |

Other noninterest income increased \$180 million and \$78 million, respectively, during the three and nine months ended September 30, 2015 compared to the same periods in the prior year, primarily driven by positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC. The positive valuation adjustment on the stock warrant associated with Vantiv Holding, LLC was \$130 million for the three months ended September 30, 2015 compared to the negative valuation adjustment of \$53 million during the three months ended September 30, 2014. The positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC were \$215 million for the nine months ended September 30, 2015 compared to the negative valuation adjustments of \$26 million during the nine months ended September 30, 2014. The fair value of the stock warrant is calculated using the Black-Scholes valuation model, which utilizes several key inputs (Vantiv, Inc. stock price, strike price of the warrant and several unobservable inputs). The positive valuation adjustments for the three and nine months ended September 30, 2015 were primarily due to increases of 18% and 32%, respectively, in Vantiv, Inc.'s share price from June 30, 2015 to September 30, 2015 and from December 31, 2014 to September 30, 2015, respectively. The negative valuation adjustments for the three and nine months ended September 30, 2014 were primarily due to decreases of 8% and 5%, respectively, in Vantiv, Inc.'s share price from June 30, 2014 to September 30, 2014 and from December 31, 2013 to September 30, 2014. For

additional information on the valuation of the warrant, refer to Note 22 of the Notes to Condensed Consolidated Financial Statements.

In addition to the increases discussed above, gain on loan sales increased \$40 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to a \$37 million gain on the sale of certain residential mortgage loans classified as TDRs during the first quarter of 2015. Equity method earnings from the Bancorp's interest in Vantiv Holding, LLC increased \$4 million and \$9 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The nine months ended September 30, 2014 included charges taken by Vantiv Holding, LLC during the second quarter of 2014 related to an acquisition.

The increases above for the nine months ended September 30, 2015 were partially offset by the impact of a gain of \$125 million on the sale of Vantiv, Inc. shares in the second quarter of 2014. The nine months ended September 30, 2015 also included impairment losses associated with lower of cost or market adjustments on long-lived assets of \$104 million compared to \$18 million for the same period in the prior year. Refer to Note 7 of the Notes to Condensed Consolidated Financial Statements for additional information on bank premises and equipment.

Other noninterest income also included a \$5 million and \$8 million increase in the negative valuation adjustments related to the Visa total return swap for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. For additional information on the valuation of the swap associated with the sale of Visa, Inc. Class B shares, refer to Note 22 of the Notes to Condensed Consolidated Financial Statements.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Noninterest Expense**

Noninterest expense increased \$55 million, or 6%, for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits) and other noninterest expense. Noninterest expense increased \$22 million, or 1%, for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to increases in personnel costs and card and processing expense partially offset by a decrease in other noninterest expense.

The major components of noninterest expense are as follows:

**TABLE 13: Noninterest Expense**

| (\$ in millions)                 | For the three months ended<br>September 30, |      |          | For the nine months ended<br>September 30, |       |          |
|----------------------------------|---|------|----------|--|-------|----------|
|                                  | 2015  | 2014 | % Change | 2015                                       | 2014  | % Change |
| Salaries, wages and incentives   | \$ 387                                      | 357  | 8        | \$ 1,139                                   | 1,083 | 5        |
| Employee benefits                | 72  | 75   | (4)      | 248  | 255   | (3)      |
| Net occupancy expense            | 77  | 78   | (1)      | 238  | 236   | 1        |
| Technology and communications    | 56  | 53   | 6        | 165  | 158   | 4        |
| Card and processing expense      | 40  | 37   | 8        | 114  | 104   | 10       |
| Equipment expense                | 31  | 30   | 3        | 92   | 90    | 2        |
| Other noninterest expense        | 280   | 258  | 9        | 818  | 866   | (6)      |
| Total noninterest expense        | \$ 943                                      | 888  | 6        | \$ 2,814                                   | 2,792 | 1        |
| Efficiency ratio on an FTE basis | 58.2 %                                      | 62.1 |          | 61.8 %                                     | 61.6  |          |

Personnel costs increased \$27 million and \$49 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for both periods was driven by increased executive retirement and severance costs as well as an increase in base compensation and an increase in incentive compensation, primarily in the commercial and mortgage businesses. Full-time equivalent employees totaled 18,311 at September 30, 2015 compared to 18,503 at September 30, 2014.

Card and processing expense increased \$3 million and \$10 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for both periods was driven primarily by increased fraud prevention related expenses.

The major components of other noninterest expense are as follows:

**TABLE 14: Components of Other Noninterest Expense**

For the three months ended For the nine months ended

September 30, September 30,

2015 2014 2015 2014

(\$ in millions)

|   |        |     |     |      |
|---|--------|-----|-----|------|
| Impairment on affordable housing investments                      | \$ 37  | 33  | 112 | 97   |
| Loan and lease  | 30     | 29  | 90  | 88   |
| Marketing   | 32     | 28  | 87  | 75   |
| FDIC insurance and other taxes                                    | 28     | 22  | 72  | 76   |
| Operating lease   | 18     | 16  | 54  | 49   |
| Professional service fees   | 21     | 15  | 49  | 51   |
| Travel  | 13     | 14  | 40  | 40   |
| Losses and adjustments  | 9      | 21  | 38  | 158  |
| Data processing   | 12     | 10  | 34  | 30   |
| Postal and courier  | 11     | 12  | 34  | 36   |
| Recruitment and education   | 9      | 7   | 24  | 20   |
| Insurance   | 4      | 4   | 13  | 12   |
| Intangible asset amortization                                     | 1      | 1   | 2   | 3    |
| Provision for (benefit from) the reserve for unfunded commitments | 2      | (8) |     | (28) |
| Other, net  | 53     | 54  | 169 | 159  |
| Total other noninterest expense                                   | \$ 280 | 258 | 818 | 866  |

Other noninterest expense increased \$22 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to increases in the provision for the reserve for unfunded commitments, FDIC insurance and other taxes, impairment on affordable housing investments and professional service fees partially offset by a decrease in losses and adjustments. The provision for the reserve for unfunded commitments was \$2 million for the three months ended September 30, 2015 compared to a benefit of \$8 million for the same period in the prior year. The increase in the provision primarily reflects an increase in unfunded commitments for which the Bancorp holds reserves. FDIC insurance and other taxes increased \$6 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily driven by an increase in the assessment rate due to a change in asset mix as well as an increase in the assessment base. Impairment on affordable housing investments increased \$4 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to incremental losses resulting from previous growth in the portfolio. Professional service fees increased \$6 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to an increase in consulting fees. These increases were partially offset by a decrease in losses and adjustments of \$12 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to a decrease in legal settlements and reserve expense.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Other noninterest expense decreased \$48 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to a decrease in losses and adjustments partially offset by increases in the provision for the reserve for unfunded commitments, impairment on affordable housing investments and marketing expense. Losses and adjustments decreased \$120 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to a decrease in legal settlements and reserve expense. The provision for the reserve for unfunded commitments increased \$28 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to an increase in unfunded commitments for which the Bancorp holds reserves. Impairment on affordable housing investments increased \$15 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to incremental losses resulting from previous growth in the portfolio. The increase for the nine months ended September 30, 2015 also included a \$12 million increase in marketing expense compared to the same period in the prior year.

The Bancorp continues to focus on efficiency initiatives as part of its core emphasis on operating leverage and expense control. The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 58.2% and 61.8% for the three and nine months ended September 30, 2015, respectively, compared to 62.1% and 61.6% for the three and nine months ended September 30, 2014, respectively.

**Applicable Income Taxes**

The Bancorp's income before income taxes, applicable income tax expense and effective tax rate are as follows:

**TABLE 15: Applicable Income Taxes**

| (\$ in millions)              | For the three months ended<br>September 30, |      | For the nine months ended<br>September 30, |       |
|-------------------------------|---|------|--|-------|
|                               | 2015  | 2014 | 2015                                       | 2014  |
| Income before income taxes    | \$ 515                                      | 464  | 1,417                                      | 1,509 |
| Applicable income tax expense | 134   | 124  | 367  | 411   |
| Effective tax rate            | 26.0 %                                      | 26.7 | 25.9                                       | 27.2  |

Applicable income tax expense for all periods includes the benefit from tax-exempt income, tax-advantaged investments, and tax credits, partially offset by the effect of certain nondeductible expenses. The tax credits are associated with the Low-Income Housing Tax Credit program established under Section 42 of the IRC, the New Markets Tax Credit program established under Section 45D of the IRC, the Rehabilitation Investment Tax Credit program established under Section 47 of the IRC and the Qualified Zone Academy Bond program established under Section 1397E of the IRC.

The decrease in the effective tax rate for the three and nine months ended September 30, 2015 compared to the same periods in the prior year included the benefit from an increase in the amount of 2015 forecasted income tax credits.

As required under U.S. GAAP, the Bancorp established a deferred tax asset for stock-based awards granted to its employees and directors. When the actual tax deduction for these stock-based awards is less than the expense previously recognized for financial reporting or when the awards expire unexercised and where the Bancorp has not accumulated an excess tax benefit for previously exercised or released stock-based awards, the Bancorp is required to recognize a non-cash charge to income tax expense upon the write-off of the deferred tax asset previously established for these stock-based awards. Based on the accumulated excess tax benefit at September 30, 2015, the Bancorp was not required to recognize a non-cash charge to income tax expense related to stock-based awards for the three and nine months ended September 30, 2015.

Based on the Bancorp's stock price at September 30, 2015 and the amount of the Bancorp's accumulation of an excess tax benefit through the period ended September 30, 2015, the Bancorp believes it will be required to recognize a \$1 million non-cash charge to income tax expense over the next twelve months related to stock-based awards, primarily in the second quarter of 2016. However, the Bancorp cannot predict its stock price or whether its employees will exercise other stock-based awards with lower exercise prices in the future. Therefore, it is possible the Bancorp may be required to recognize a non-cash charge to income tax expense greater than or less than \$1 million over the next twelve months.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****BALANCE SHEET ANALYSIS****Loans and Leases**

The Bancorp classifies loans and leases based upon their primary purpose. Table 16 summarizes end of period loans and leases, including loans held for sale and Table 17 summarizes average total loans and leases, including loans held for sale.

**TABLE 16: Components of Total Loans and Leases (includes held for sale)**

| As of (\$ in millions)   | September 30, 2015 |            | December 31, 2014 |            |
|--|--------------------|------------|-------------------|------------|
|  | Carrying Value     | % of Total | Carrying Value    | % of Total |
| <b>Commercial loans and leases:</b>                                    |                    |            |                   |            |
| Commercial and industrial loans  | \$ 42,970          | 46         | \$ 40,801         | 45         |
| Commercial mortgage loans  | 7,084              | 7          | 7,410             | 8          |
| Commercial construction loans  | 3,101              | 3          | 2,071             | 2          |
| Commercial leases  | 3,901              | 4          | 3,721             | 4          |
| <b>Subtotal commercial loans and leases</b>                            | <b>57,056</b>      | <b>60</b>  | <b>54,003</b>     | <b>59</b>  |
| <b>Consumer loans and leases:</b>                                      |                    |            |                   |            |
| Residential mortgage loans   | 14,197             | 15         | 13,582            | 15         |
| Home equity  | 8,460              | 9          | 8,886             | 10         |
| Automobile loans   | 11,829             | 13         | 12,037            | 13         |
| Credit card  | 2,330              | 2          | 2,401             | 3          |
| Other consumer loans and leases  | 696                | 1          | 436               |            |
| <b>Subtotal consumer loans and leases</b>                              | <b>37,512</b>      | <b>40</b>  | <b>37,342</b>     | <b>41</b>  |
| <b>Total loans and leases</b>  | <b>\$ 94,568</b>   | <b>100</b> | <b>\$ 91,345</b>  | <b>100</b> |
| <b>Total portfolio loans and leases (excludes loans held for sale)</b> | <b>\$ 93,574</b>   |            | <b>\$ 90,084</b>  |            |

Loans and leases, including loans held for sale, increased \$3.2 billion, or 4%, from December 31, 2014. The increase from December 31, 2014 was the result of a \$3.1 billion, or 6%, increase in commercial loans and leases and a \$170 million increase in consumer loans and leases.

Commercial loans and leases increased from December 31, 2014 primarily due to increases in commercial and industrial loans and commercial construction loans partially offset by a decrease in commercial mortgage loans.

Commercial and industrial loans increased \$2.2 billion, or 5%, from December 31, 2014 and commercial construction loans increased \$1.0 billion, or 50%, from December 31, 2014 primarily as a result of an increase in new loan origination activity resulting from an increase in demand and targeted marketing efforts. Commercial mortgage loans decreased \$326 million, or 4%, from December 31, 2014 primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

Consumer loans and leases increased from December 31, 2014 primarily due to increases in residential mortgage loans and other consumer loans and leases partially offset by decreases in home equity, automobile loans and credit card loans. Residential mortgage loans increased \$615 million, or 5%, from December 31, 2014 primarily due to the continued retention of certain conforming ARMs and certain other fixed-rate loans originated during the nine months ended September 30, 2015. Other consumer loans and leases increased \$260 million, or 60%, from December 31, 2014 primarily as a result of an increase in new loan origination activity. Home equity decreased \$426 million, or 5%, from December 31, 2014 and automobile loans decreased \$208 million, or 2%, from December 31, 2014 as payoffs exceeded new loan production. Credit card loans decreased \$71 million, or 3%, from December 31, 2014 primarily due to seasonal trends from the paydown of year-end balances which were higher due to holiday spending.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 17: Components of Average Total Loans and Leases (includes held for sale)**

| For the three months ended (\$ in millions)                             | September 30, 2015 |            | September 30, 2014 |            |
|---|--------------------|------------|--------------------|------------|
|   | Carrying Value     | % of Total | Carrying Value     | % of Total |
| Commercial loans and leases:  |                    |            |                    |            |
| Commercial and industrial loans   | \$ 43,162          | 46         | \$ 41,525          | 45         |
| Commercial mortgage loans   | 7,038              | 7          | 7,637              | 8          |
| Commercial construction loans   | 2,966              | 3          | 1,565              | 2          |
| Commercial leases   | 3,847              | 4          | 3,576              | 4          |
| Subtotal commercial loans and leases                                    | 57,013             | 60         | 54,303             | 59         |
| Consumer loans and leases:  |                    |            |                    |            |
| Residential mortgage loans  | 13,976             | 15         | 13,342             | 15         |
| Home equity   | 8,521              | 9          | 9,009              | 10         |
| Automobile loans  | 11,881             | 13         | 12,105             | 13         |
| Credit card   | 2,277              | 2          | 2,295              | 3          |
| Other consumer loans and leases   | 661                | 1          | 374                |            |
| Subtotal consumer loans and leases                                      | 37,316             | 40         | 37,125             | 41         |
| Total average loans and leases  | \$ 94,329          | 100        | \$ 91,428          | 100        |
| Total average portfolio loans and leases (excludes loans held for sale) | \$ 93,373          |            | \$ 90,799          |            |

Average loans and leases, including loans held for sale, increased \$2.9 billion, or 3%, from September 30, 2014. The increase from September 30, 2014 was the result of a \$2.7 billion, or 5%, increase in average commercial loans and leases and a \$191 million, or 1%, increase in average consumer loans and leases.

Average commercial loans and leases increased from September 30, 2014 primarily due to increases in average commercial and industrial loans and average commercial construction loans partially offset by a decrease in average commercial mortgage loans. Average commercial and industrial loans increased \$1.6 billion, or 4%, from September 30, 2014 and average commercial construction loans increased \$1.4 billion, or 90%, from September 30, 2014 primarily as a result of an increase in new loan origination activity resulting from an increase in demand and targeted marketing efforts. Average commercial mortgage loans decreased \$599 million, or 8%, from September 30, 2014 primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

Average consumer loans and leases increased from September 30, 2014 primarily due to increases in average residential mortgage loans and average other consumer loans and leases partially offset by decreases in average home equity and average automobile loans. Average residential mortgage loans increased \$634 million, or 5%, from September 30, 2014 primarily driven by the continued retention of certain conforming ARMs and certain other fixed-rate loans. Average other consumer loans and leases increased \$287 million, or 77%, from September 30, 2014 primarily as a result of an increase in new loan origination activity. Average home equity decreased \$488 million, or 5%, from September 30, 2014 and average automobile loans decreased \$224 million, or 2%, from September 30, 2014 as payoffs exceeded new loan production.

### **Investment Securities**

The Bancorp uses investment securities as a means of managing interest rate risk, providing liquidity support and providing collateral for pledging purposes. Total investment securities were \$29.3 billion and \$23.0 billion at September 30, 2015 and December 31, 2014, respectively. The taxable investment securities portfolio had an effective duration of 5.1 years at September 30, 2015 compared to 4.5 years at December 31, 2014.

Securities are classified as trading when bought and held principally for the purpose of selling them in the near term. Securities are classified as available-for-sale when, in management's judgment, they may be sold in response to, or in anticipation of, changes in market conditions. Securities that management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost.

At September 30, 2015, the Bancorp's investment portfolio consisted primarily of AAA-rated available-for-sale securities. Securities classified as below investment grade were immaterial as of September 30, 2015 and December 31, 2014. The Bancorp's management has evaluated the securities in an unrealized loss position in the available-for-sale and held-to-maturity portfolios for OTTI. The Bancorp did not recognize OTTI on any of its available-for-sale and other debt securities and recognized \$5 million of OTTI on its available-for-sale and other debt securities, included in securities gains, net, in the Condensed Consolidated Statements of Income, during the three and nine months ended September 30, 2015, respectively. During the three and nine months ended September 30, 2014, the Bancorp recognized \$7 million and \$24 million of OTTI on its available-for-sale and other debt securities, respectively. The Bancorp did not recognize OTTI on any of its available-for-sale equity securities or held-to-maturity debt securities during both the three and nine months ended September 30, 2015 and 2014.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 18: Components of Investment Securities**

| As of (\$ in millions)                                       | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Available-for-sale and other: (amortized cost basis)         |                       |                      |
| U.S. Treasury and federal agencies securities                | \$ 1,077              | 1,545                |
| Obligations of states and political subdivisions securities  | 137                   | 185                  |
| Mortgage-backed securities:                                  |                       |                      |
| Agency residential mortgage-backed securities <sup>(a)</sup> | 14,423                | 11,968               |
| Agency commercial mortgage-backed securities                 | 7,609                 | 4,465                |
| Non-agency commercial mortgage-backed securities             | 2,693                 | 1,489                |
| Asset-backed securities and other debt securities            | 1,345                 | 1,324                |
| Equity securities <sup>(b)</sup>                             | 702                   | 701                  |
| Total available-for-sale and other securities                | \$ 27,986             | 21,677               |
| Held-to-maturity: (amortized cost basis)                     |                       |                      |
| Obligations of states and political subdivisions securities  | \$ 155                | 186                  |
| Asset-backed securities and other debt securities            | 2                     | 1                    |
| Total held-to-maturity securities                            | \$ 157                | 187                  |
| Trading: (fair value)  |                       |                      |
| U.S. Treasury and federal agencies securities                | \$ 8                  | 14                   |
| Obligations of states and political subdivisions securities  | 18                    | 8                    |
| Mortgage-backed securities:                                  |                       |                      |
| Agency residential mortgage-backed securities                | 5                     | 9                    |
| Non-agency residential mortgage-backed securities            | 1                     |                      |
| Asset-backed securities and other debt securities            | 11                    | 13                   |
| Equity securities <sup>(b)</sup>                             | 331                   | 316                  |
| Total trading securities                                     | \$ 374                | 360                  |

(a) Includes interest-only mortgage-backed securities of \$53 and \$175 as of **September 30, 2015** and December 31, 2014, respectively, recorded at fair value with fair value changes recorded in securities gains, net in the Condensed Consolidated Financial Statements.

(b) Equity securities consist of FHLB and FRB restricted stock holdings that are carried at par, FHLMC and FNMA preferred stock holdings and certain mutual fund holdings and equity security holdings.

On an amortized cost basis, available-for-sale and other securities increased \$6.3 billion, or 29%, from December 31, 2014 primarily due to the repositioning of the portfolio for LCR purposes and included increases in agency residential mortgage-backed securities, agency commercial mortgage-backed securities and non-agency commercial mortgage-backed securities. Agency residential mortgage-backed securities increased \$2.5 billion, or 21%, from December 31, 2014 primarily due to the purchase of \$14.1 billion of agency residential mortgage-backed securities partially offset by sales of \$9.8 billion and paydowns of \$1.9 billion during the nine months ended September 30, 2015. Agency commercial mortgage-backed securities increased \$3.1 billion, or 70%, from December 31, 2014 primarily due to \$4.7 billion in purchases of agency commercial mortgage-backed securities partially offset by \$1.5 billion in sales and \$123 million in paydowns on the portfolio during the nine months ended September 30, 2015. Non-agency commercial mortgage-backed securities increased \$1.2 billion, or 81%, from December 31, 2014 primarily due to \$1.7 billion in purchases of non-agency commercial mortgage-backed securities partially offset by \$380 million in sales and \$75 million in paydowns on the portfolio during the nine months ended September 30, 2015.

On an amortized cost basis, available-for-sale and other securities were 22% and 18% of total interest-earning assets at September 30, 2015 and December 31, 2014, respectively. The estimated weighted-average life of the debt securities in the available-for-sale and other portfolio was 6.4 years at September 30, 2015 compared to 5.8 years at December 31, 2014. In addition, at September 30, 2015, the available-for-sale and other securities portfolio had a weighted-average yield of 3.23%, compared to 3.31% at December 31, 2014.

Information presented in Table 19 is on a weighted-average life basis, anticipating future prepayments. Yield information is presented on an FTE basis and is computed using amortized cost balances. Maturity and yield calculations for the total available-for-sale and other portfolio exclude equity securities that have no stated yield or maturity. Total net unrealized gains on the available-for-sale and other securities portfolio were \$813 million at September 30, 2015 compared to \$731 million at December 31, 2014. The increase from December 31, 2014 was primarily due to a decrease in interest rates during the nine months ended September 30, 2015. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally increases when interest rates decrease or when credit spreads contract.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 19: Characteristics of Available-for-Sale and Other Securities**

| As of September 30, 2015 (\$ in millions)                                   | Amortized Cost | Fair Value | Weighted-Average Life (in years) | Weighted-Average Yield |
|---|----------------|------------|----------------------------------|------------------------|
| U.S. Treasury and federal agencies securities:                              |                |            |                                  |                        |
| Average life of 1 year or less  | \$ 274         | 280        | 0.8                              | 3.31 %                 |
| Average life 1 – 5 years  | 803            | 843        | 1.5                              | 4.04                   |
| Total   | \$ 1,077       | 1,123      | 1.3                              | 3.86 %                 |
| Obligations of states and political subdivisions securities: <sup>(a)</sup> |                |            |                                  |                        |
| Average life of 1 year or less  | 3              | 3          | 0.2                              | 0.05                   |
| Average life 1 – 5 years  | 99             | 102        | 2.4                              | 3.36                   |
| Average life 5 – 10 years   | 35             | 37         | 7.5                              | 3.95                   |
| Total   | \$ 137         | 142        | 3.6                              | 3.43 %                 |
| Agency residential mortgage-backed securities:                              |                |            |                                  |                        |
| Average life of 1 year or less  | 8              | 9          | 0.7                              | 5.03                   |
| Average life 1 – 5 years  | 3,345          | 3,508      | 4.2                              | 4.08                   |
| Average life 5 – 10 years   | 10,645         | 10,913     | 6.3                              | 3.15                   |
| Average life greater than 10 years  | 425            | 449        | 12.7                             | 3.53                   |
| Total   | \$ 14,423      | 14,879     | 6.0                              | 3.38 %                 |
| Agency commercial mortgage-backed securities:                               |                |            |                                  |                        |
| Average life 1 – 5 years  | 1,199          | 1,248      | 4.5                              | 3.08                   |
| Average life 5 – 10 years   | 6,332          | 6,510      | 8.3                              | 2.97                   |
| Average life greater than 10 years  | 78             | 80         | 12.9                             | 3.07                   |
| Total   | \$ 7,609       | 7,838      | 7.8                              | 2.99 %                 |
| Non-agency commercial mortgage-backed securities:                           |                |            |                                  |                        |
| Average life of 1 year or less  | 132            | 133        | 0.7                              | 3.01                   |
| Average life 1 – 5 years  | 295            | 304        | 2.4                              | 3.24                   |
| Average life 5 – 10 years   | 2,266          | 2,320      | 8.0                              | 3.28                   |
| Total   | \$ 2,693       | 2,757      | 7.0                              | 3.26 %                 |
| Asset-backed securities and other debt securities:                          |                |            |                                  |                        |
| Average life of 1 year or less  | 95             | 94         | 0.2                              | 2.11                   |
| Average life 1 – 5 years  | 584            | 593        | 2.8                              | 2.71                   |
| Average life 5 – 10 years   | 198            | 197        | 6.9                              | 2.20                   |
| Average life greater than 10 years  | 468            | 472        | 14.0                             | 2.07                   |

|   |    |        |        |     |        |
|---|----|--------|--------|-----|--------|
| Total   | \$ | 1,345  | 1,356  | 7.1 | 2.37 % |
| Equity securities                             |    | 702    | 704    |     |        |
| Total available-for-sale and other securities | \$ | 27,986 | 28,799 | 6.4 | 3.23 % |

(a) Taxable-equivalent yield adjustments included in the above table are 0.00%, 0.00%, 2.10% and 0.53% for securities with an average life of one year or less, 1-5 years, 5-10 years and in total, respectively.

### Deposits

The Bancorp's deposit balances represent an important source of funding and revenue growth opportunity. The Bancorp continues to focus on core deposit growth in its retail and commercial franchises by improving customer satisfaction, building full relationships and offering competitive rates. Core deposits represented 69% and 71% of the Bancorp's asset funding base at September 30, 2015 and December 31, 2014, respectively.

**TABLE 20: Deposits**

| As of (\$ in millions)                         | September 30, 2015 |            | December 31, 2014 |            |
|--|--------------------|------------|-------------------|------------|
|  | Balance            | % of Total | Balance           | % of Total |
| Demand   | \$ 34,832          | 34         | \$ 34,809         | 34         |
| Interest checking                              | 24,832             | 25         | 26,800            | 26         |
| Savings  | 14,632             | 14         | 15,051            | 15         |
| Money market                                   | 18,887             | 19         | 17,083            | 17         |
| Foreign office                                 | 754                | 1          | 1,114             | 1          |
| Transaction deposits                           | 93,937             | 93         | 94,857            | 93         |
| Other time                                     | 4,041              | 4          | 3,960             | 4          |
| Core deposits                                  | 97,978             | 97         | 98,817            | 97         |
| Certificates \$100,000 and over <sup>(a)</sup> | 2,915              | 3          | 2,895             | 3          |
| Total deposits                                 | \$ 100,893         | 100        | \$ 101,712        | 100        |

(a) Includes \$1,419 and \$1,483 of certificates \$250,000 and over at **September 30, 2015** and **December 31, 2014**, respectively.

Core deposits decreased \$839 million, or 1%, from December 31, 2014 driven primarily by a decrease of \$920 million, or 1%, in transaction deposits. Transaction deposits decreased from December 31, 2014 primarily due to decreases in interest checking deposits, savings deposits and foreign office deposits, partially offset by an increase in money market deposits. Interest checking deposits decreased \$2.0 billion, or 7%, from December 31, 2014 driven primarily by lower balances per account for commercial customers and targeted pricing changes for retail promotional rates and commercial LCR punitive accounts. Savings deposits decreased \$419 million, or 3%, from December 31, 2014 driven primarily by a promotional product offering causing a balance migration to money market deposits which increased \$1.8 billion, or 11%, from December 31, 2014. The remaining increase in money market deposits is due to higher balances per account and the acquisition of new commercial customers. Foreign office deposits decreased \$360 million, or 32%, from December 31, 2014 driven primarily by lower balances per account for commercial customers.



**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table presents average deposits for the three months ended:

**TABLE 21: Average Deposits**

| (\$ in millions)                               | September 30, 2015 |            | September 30, 2014 |            |
|--|--------------------|------------|--------------------|------------|
|  | Balance            | % of Total | Balance            | % of Total |
| Demand   | \$ 35,231          | 34         | \$ 31,790          | 33         |
| Interest checking                              | 25,590             | 25         | 24,926             | 26         |
| Savings  | 14,868             | 15         | 15,759             | 16         |
| Money market                                   | 18,253             | 18         | 15,222             | 16         |
| Foreign office                                 | 718                | 1          | 1,663              | 2          |
| Transaction deposits                           | 94,660             | 93         | 89,360             | 93         |
| Other time                                     | 4,057              | 4          | 3,800              | 4          |
| Core deposits                                  | 98,717             | 97         | 93,160             | 97         |
| Certificates \$100,000 and over <sup>(a)</sup> | 2,924              | 3          | 3,339              | 3          |
| Other  | 222                |            |                    |            |
| Total average deposits                         | \$ 101,863         | 100        | \$ 96,499          | 100        |

*(a) Includes \$1,389 and \$1,553 of average certificates \$250,000 and over for the three months ended September 30, 2015 and 2014, respectively.*

On an average basis, core deposits increased \$5.6 billion, or 6%, from September 30, 2014 due to increases of \$5.3 billion, or 6%, in average transaction deposits and \$257 million, or 7%, in average other time deposits. The increase in average transaction deposits was driven by increases in average demand deposits, average money market deposits and average interest checking deposits, partially offset by decreases in average foreign office deposits and average savings deposits. Average demand deposits increased \$3.4 billion, or 11%, from September 30, 2014 primarily due to an increase in average commercial account balances and new commercial customer accounts. Average money market deposits increased \$3.0 billion, or 20%, primarily driven by a promotional product offering and an increase in the average commercial account balances and new commercial customer accounts. The remaining increase in average money market deposits was due to a balance migration from savings deposits which decreased \$891 million, or 6%, from September 30, 2014. Average interest checking deposits increased \$664 million, or 3%, from September 30, 2014 primarily due to an increase in average balances per account and new commercial customer accounts. Average foreign office deposits decreased \$945 million, or 57%, from September 30, 2014 primarily due to lower average balances per account. Average other time deposits increased \$257 million, or 7%, from September 30, 2014 primarily from the acquisition of new customers due to promotional interest rates since September 30, 2014. The Bancorp uses certificates \$100,000 and over as a method to fund earning assets. Average certificates \$100,000 and over decreased

\$415 million, or 12%, from September 30, 2014 primarily due to the maturity and run-off of retail and institutional certificates of deposit since September 30, 2014.

*Contractual maturities*

The contractual maturities of certificates \$100,000 and over as of September 30, 2015 are summarized in the following table:

**TABLE 22: Contractual Maturities of Certificates \$100,000 and over**

(\$ in millions)

|  |                 |
|--|-----------------|
| 3 months or less                             | \$ 586          |
| After 3 months through 6 months              | 208             |
| After 6 months through 12 months             | 436             |
| After 12 months                              | 1,685           |
| <b>Total certificates \$100,000 and over</b> | <b>\$ 2,915</b> |

The contractual maturities of other time deposits and certificates \$100,000 and over as of September 30, 2015 are summarized in the following table:

**TABLE 23: Contractual Maturities of Other Time Deposits and Certificates \$100,000 and over**

(\$ in millions)

|  |                 |
|--|-----------------|
| Next 12 months   | \$ 2,565        |
| 13-24 months   | 1,467           |
| 25-36 months   | 948             |
| 37-48 months   | 677             |
| 49-60 months   | 1,272           |
| After 60 months  | 27              |
| <b>Total other time deposits and certificates \$100,000 and over</b> | <b>\$ 6,956</b> |

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Borrowings**

Borrowings increased \$3.9 billion, or 23%, from December 31, 2014. Table 24 summarizes the end of period components of total borrowings. As of September 30, 2015, total borrowings as a percent of interest-bearing liabilities were 24% compared to 20% at December 31, 2014.

**TABLE 24: Borrowings**

| As of (\$ in millions)      | September 30, 2015 | December 31, 2014 |
|-----------------------------|--------------------|-------------------|
| Federal funds purchased     | \$ 132             | 144               |
| Other short-term borrowings | 4,904              | 1,556             |
| Long-term debt              | 15,527             | 14,967            |
| Total borrowings            | \$ 20,563          | 16,667            |

Other short-term borrowings increased \$3.3 billion from December 31, 2014 primarily driven by an increase of \$3.5 billion in FHLB short-term borrowings, partially offset by a decrease in commercial repurchase agreements. For further information on the components of other short-term borrowings, refer to Note 14 of the Notes to Condensed Consolidated Financial Statements. Long-term debt increased \$560 million, or 4%, from December 31, 2014 primarily driven by issuances in the third quarter of 2015 of \$1.1 billion of unsecured senior notes and \$1.3 billion of unsecured senior bank notes, partially offset by the maturity of \$500 million of subordinated fixed-rate bank notes and \$1.3 billion of paydowns on long-term debt associated with automobile loan securitizations. For additional information regarding automobile securitizations and long-term debt, refer to Note 11 and Note 15, respectively, of the Notes to Condensed Consolidated Financial Statements.

The following table presents average borrowings for the three months ended:

**TABLE 25: Average Borrowings**

| (\$ in millions)            | September 30, 2015 | September 30, 2014 |
|-----------------------------|--------------------|--------------------|
| Federal funds purchased     | \$ 1,978           | 520                |
| Other short-term borrowings | 1,897              | 1,973              |
| Long-term debt              | 14,697             | 13,955             |
| Total average borrowings    | \$ 18,572          | 16,448             |

Average borrowings increased \$2.1 billion, or 13%, compared to September 30, 2014, due to increases in average long-term debt and average federal funds purchased partially offset by a decrease in average other short-term

borrowings. The increase in average long-term debt of \$742 million, or 5%, was driven by the issuance of asset-backed securities by consolidated VIEs of \$1.0 billion related to an automobile loan securitization during the fourth quarter of 2014 and the previously mentioned unsecured senior note issuances in the third quarter of 2015. The impact of these issuances was partially offset by the aforementioned maturity of subordinated fixed-rate bank notes and paydowns on long-term debt associated with automobile loan securitizations since the third quarter of 2014. The level of average federal funds purchased and average other short-term borrowings can fluctuate significantly from period to period depending on funding needs and which sources are used to satisfy those needs. Information on the average rates paid on borrowings is discussed in the Net Interest Income subsection of the Statements of Income Analysis section of MD&A. In addition, refer to the Liquidity Risk Management section of MD&A for a discussion on the role of borrowings in the Bancorp's liquidity management.

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**BUSINESS SEGMENT REVIEW**

The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Investment Advisors. Additional information on each business segment is included in Note 23 of the Notes to Condensed Consolidated Financial Statements. Results of the Bancorp's business segments are presented based on its management structure and management accounting practices. The structure and accounting practices are specific to the Bancorp; therefore, the financial results of the Bancorp's business segments are not necessarily comparable with similar information for other financial institutions. The Bancorp refines its methodologies from time to time as management's accounting practices or businesses change.

The Bancorp manages interest rate risk centrally at the corporate level and employs an FTP methodology at the business segment level. This methodology insulates the business segments from interest rate volatility, enabling them to focus on serving customers through loan and deposit products. The FTP system assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on expected duration and the U.S. swap curve. Matching duration allocates interest income and interest expense to each business segment so its resulting net interest income is insulated from interest rate risk. In a rising rate environment, the Bancorp benefits from the widening spread between deposit costs and wholesale funding costs. However, the Bancorp's FTP system credits this benefit to deposit-providing businesses, such as Branch Banking and Investment Advisors, on a duration-adjusted basis. The net impact of the FTP methodology is captured in General Corporate and Other.

The Bancorp adjusts the FTP charge and credit rates as dictated by changes in interest rates for various interest-earning assets and interest-bearing liabilities and by the review of the estimated durations for the indeterminate-lived deposits. The credit rate provided for demand deposit accounts is reviewed annually based upon the account type, its estimated duration and the corresponding federal funds, U.S. swap curve or swap rate. The credit rates for several deposit products were reset January 1, 2015 to reflect the current market rates and updated duration assumptions. These rates were generally lower than those in place during 2014, thus net interest income for deposit providing businesses was negatively impacted for the three and nine months ended September 30, 2015.

The business segments are charged provision expense based on the actual net charge-offs experienced on the loans and leases owned by each business segment. Provision expense attributable to loan and lease growth and changes in ALLL factors are captured in General Corporate and Other. The financial results of the business segments include allocations for shared services and headquarters expenses. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations by accessing the capital markets as a collective unit.

The results of operations and financial position for the three and nine months ended September 30, 2014 were adjusted to reflect the transfer of certain customers and Bancorp employees from Commercial Banking to Branch Banking, effective January 1, 2015. In addition, the prior year balances were adjusted to reflect a change in internal allocation methodology.

Net income (loss) by business segment is summarized in the following table:

**TABLE 26: Net Income by Business Segment**

| (\$ in millions)  | For the three months ended |      | For the nine months ended |       |
|---|----------------------------|------|---------------------------|-------|
|   | September 30,              |      | September 30,             |       |
|   | 2015                       | 2014 | 2015                      | 2014  |
| <b>Income Statement Data</b>                              |                            |      |                           |       |
| Commercial Banking  | \$ 153                     | 212  | 519                       | 580   |
| Branch Banking  | 102                        | 96   | 201                       | 258   |
| Consumer Lending  | 13                         | 3    | 102                       | (18)  |
| Investment Advisors                                       | 15                         | 13   | 40                        | 40    |
| General Corporate and Other                               | 98                         | 16   | 188                       | 238   |
| Net income  | 381                        | 340  | 1,050                     | 1,098 |
| Less: Net income attributable to noncontrolling interests |                            |      | (6)                       | 2     |
| Net income attributable to Bancorp                        | 381                        | 340  | 1,056                     | 1,096 |
| Dividends on preferred stock                              | 15                         | 12   | 52                        | 44    |
| Net income available to common shareholders               | \$ 366                     | 328  | 1,004                     | 1,052 |

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Commercial Banking**

Commercial Banking offers credit intermediation, cash management and financial services to large and middle-market businesses and government and professional customers. In addition to the traditional lending and depository offerings, Commercial Banking products and services include global cash management, foreign exchange and international trade finance, derivatives and capital markets services, asset-based lending, real estate finance, public finance, commercial leasing and syndicated finance.

The following table contains selected financial data for the Commercial Banking segment:

**TABLE 27: Commercial Banking**

| (\$ in millions)  | For the three months ended |        | For the nine months ended |        |
|---|----------------------------|--------|---------------------------|--------|
|   | September 30,<br>2015      | 2014   | September 30,<br>2015     | 2014   |
| <b>Income Statement Data</b>                            |                            |        |                           |        |
| Net interest income (FTE) <sup>(a)</sup>                | \$ 418                     | 416    | 1,221                     | 1,227  |
| Provision for loan and lease losses                     | 138                        | 47     | 208                       | 184    |
| Noninterest income:                                     |                            |        |                           |        |
| Corporate banking revenue                               | 104                        | 99     | 276                       | 311    |
| Service charges on deposits                             | 72                         | 72     | 212                       | 210    |
| Other noninterest income                                | 52                         | 47     | 142                       | 121    |
| Noninterest expense:                                    |                            |        |                           |        |
| Personnel costs   | 73                         | 74     | 228                       | 230    |
| Other noninterest expense                               | 269                        | 249    | 828                       | 756    |
| Income before taxes                                     | 166                        | 264    | 587                       | 699    |
| Applicable income tax expense <sup>(a)(b)</sup>         | 13                         | 52     | 68                        | 119    |
| Net income  | \$ 153                     | 212    | 519                       | 580    |
| <b>Average Balance Sheet Data</b>                       |                            |        |                           |        |
| Commercial loans and leases, including held for sale    | \$ 53,824                  | 51,069 | 52,705                    | 50,591 |
| Demand deposits   | 20,712                     | 18,393 | 20,476                    | 17,939 |
| Interest checking deposits                              | 8,996                      | 7,593  | 9,170                     | 7,970  |
| Savings and money market deposits                       | 6,838                      | 5,601  | 6,479                     | 5,700  |
| Other time deposits and certificates \$100,000 and over | 1,161                      | 1,544  | 1,256                     | 1,398  |
| Foreign office deposits                                 | 717                        | 1,652  | 839                       | 1,948  |

- (a) Includes FTE adjustments of \$5 for both the three months ended **September 30, 2015** and 2014 and **\$14** and \$15 for the nine months ended **September 30, 2015** and 2014, respectively.
- (b) Applicable income tax expense for all periods includes the tax benefit from tax-exempt income and business tax credits, partially offset by the effect of certain nondeductible expenses. Refer to the Applicable Income Taxes section of MD&A for additional information.

Net income was \$153 million for the three months ended September 30, 2015 compared to net income of \$212 million for the three months ended September 30, 2014. The decrease was driven by increases in the provision for loan and lease losses and noninterest expense partially offset by an increase in noninterest income. Net income was \$519 million for the nine months ended September 30, 2015 compared to net income of \$580 million for the nine months ended September 30, 2014. The decrease was driven by increases in noninterest expense and the provision for loan and lease losses as well as decreases in noninterest income and net interest income on an FTE basis.

Net interest income on an FTE basis increased \$2 million and decreased \$6 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2015 was primarily driven by increases in FTP credits due to an increase in average core deposits. The increase for the three months ended September 30, 2015 was partially offset by a decline in yields of 22 bps on average commercial loans and leases compared to the same period in the prior year as well as increases in FTP charges on loans and leases and an increase in interest expense on savings and money market deposits both driven by increases in average balances. The decrease for the nine months ended September 30, 2015 was primarily driven by a decline in yields of 20 bps on average commercial loans and leases compared to the same period in the prior year as well as increases in FTP charges on loans and leases and an increase in interest expense on savings and money market deposits both driven by increases in average balances. The decrease for the nine months ended September 30, 2015 was partially offset by increases in FTP credits due to an increase in average demand deposits.

Provision for loan and lease losses increased \$91 million and \$24 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for both periods included a \$102 million charge-off associated with the restructuring of a student loan backed commercial credit originated in 2007. The nine months ended September 30, 2014 included net charge-offs related to certain impaired commercial and industrial loans in the first and third quarters of 2014. Net charge-offs as a percent of average portfolio loans and leases increased to 101 bps for the three months ended September 30, 2015 compared to 36 bps for the same period in the prior year and increased to 53 bps for the nine months ended September 30, 2015 compared to 49 bps for the same period in the prior year.

Noninterest income increased \$10 million and decreased \$12 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2015 was driven by increases in other noninterest income and corporate banking revenue. Other noninterest income increased \$5 million for the three months ended September 30, 2015 from the same period in the prior year driven by increases in foreign exchange translation gains and operating lease income. Corporate banking revenue increased \$5 million for the three months ended September 30, 2015 from the same period in the prior year primarily driven by increases in institutional sales revenue and loan syndications revenue partially offset by lower foreign exchange fees.

---

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The decrease for the nine months ended September 30, 2015 was driven by a decrease in corporate banking revenue partially offset by an increase in other noninterest income. Corporate banking revenue decreased \$35 million for the nine months ended September 30, 2015 from the same period in the prior year primarily driven by impairment charges of \$36 million related to certain operating lease equipment that was recognized during the nine months ended September 30, 2015. Refer to Note 8 of the Notes to Condensed Consolidated Financial Statements for additional information. The nine months ended September 30, 2015 also included an \$18 million decrease in syndication fees as a result of decreased activity in the market. The decreases for the nine months ended September 30, 2015 were partially offset by higher institutional sales revenue, interest rate derivative fees, foreign exchange fees and business lending fees compared to the same period in the prior year. Other noninterest income increased \$21 million for the nine months ended September 30, 2015 from the same period in the prior year driven by increases in gains on loan sales and operating lease income.

Noninterest expense increased \$19 million and \$70 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year as a result of an increase in other noninterest expense. The increase in other noninterest expense for both periods was primarily driven by increases in corporate overhead allocations, operating lease expense and impairment on affordable housing investments primarily due to incremental losses resulting from previous growth in the portfolio.

Average commercial loans increased \$2.8 billion and \$2.1 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to increases in average commercial and industrial loans and average commercial construction loans partially offset by a decrease in average commercial mortgage loans. Average commercial and industrial portfolio loans increased \$1.6 billion and \$1.3 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year and average commercial construction portfolio loans increased \$1.4 billion and \$1.2 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily as a result of an increase in new loan origination activity resulting from an increase in demand and targeted marketing efforts. Average commercial mortgage portfolio loans decreased \$527 million and \$583 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

Average core deposits increased \$4.0 billion and \$3.4 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2015 was primarily driven by increases in average demand deposits, average interest checking deposits and average savings and money market deposits which increased \$2.3 billion, \$1.4 billion and \$1.2 billion, respectively, compared to the same period in the prior year. This increase was partially offset by a decrease in average foreign deposits of \$935 million for the three months ended September 30, 2015 compared to the same period in the prior year. The increase for the nine months ended September 30, 2015 was primarily driven by increases in average demand deposits, average interest checking deposits and average savings and money market deposits which increased \$2.5 billion, \$1.2 billion and \$779 million, respectively, compared to the same period in the prior year. This increase was partially offset by a decrease in average foreign deposits of \$1.1 billion for the nine months ended September 30, 2015 compared to the same period in the prior year.



**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Branch Banking**

Branch Banking provides a full range of deposit and loan products to individuals and small businesses through 1,295 full-service banking centers. Branch Banking offers depository and loan products, such as checking and savings accounts, home equity loans and lines of credit, credit cards and loans for automobiles and other personal financing needs, as well as products designed to meet the specific needs of small businesses, including cash management services.

The following table contains selected financial data for the Branch Banking segment:

**TABLE 28: Branch Banking**

| (\$ in millions)                          | For the three months ended |        | For the nine months ended |        |
|---|----------------------------|--------|---------------------------|--------|
|   | September 30,<br>2015      | 2014   | September 30,<br>2015     | 2014   |
| <b>Income Statement Data</b>              |                            |        |                           |        |
| Net interest income                       | \$ 395                     | 396    | 1,148                     | 1,171  |
| Provision for loan and lease losses       | 39                         | 50     | 122                       | 142    |
| Noninterest income:                       |                            |        |                           |        |
| Service charges on deposits               | 73                         | 73     | 206                       | 206    |
| Card and processing revenue               | 60                         | 59     | 176                       | 168    |
| Investment advisory revenue               | 40                         | 40     | 120                       | 115    |
| Other noninterest income                  | 24                         | 22     | (34)                      | 49     |
| Noninterest expense:                      |                            |        |                           |        |
| Personnel costs                           | 130                        | 134    | 397                       | 408    |
| Net occupancy and equipment expense       | 63                         | 62     | 186                       | 185    |
| Card and processing expense               | 38                         | 35     | 108                       | 98     |
| Other noninterest expense                 | 165                        | 161    | 492                       | 477    |
| Income before taxes                       | 157                        | 148    | 311                       | 399    |
| Applicable income tax expense             | 55                         | 52     | 110                       | 141    |
| Net income                                | \$ 102                     | 96     | 201                       | 258    |
| <b>Average Balance Sheet Data</b>         |                            |        |                           |        |
| Consumer loans, including held for sale   | \$ 14,269                  | 14,982 | 14,449                    | 15,017 |
| Commercial loans, including held for sale | 1,963                      | 2,137  | 1,994                     | 2,208  |
| Demand deposits                           | 12,771                     | 11,800 | 12,561                    | 11,723 |
| Interest checking deposits                | 9,003                      | 8,992  | 9,096                     | 9,107  |
| Savings and money market deposits         | 25,155                     | 24,487 | 25,448                    | 23,703 |

|   |              |       |              |       |
|---|--------------|-------|--------------|-------|
| Other time deposits and certificates \$100,000 and over | <b>5,202</b> | 4,732 | <b>5,141</b> | 4,620 |
|---|--------------|-------|--------------|-------|

Net income was \$102 million for the three months ended September 30, 2015 compared to net income of \$96 million for the three months ended September 30, 2014. The increase was driven by a decrease in the provision for loan and lease losses and an increase in noninterest income partially offset by an increase in noninterest expense. Net income was \$201 million for the nine months ended September 30, 2015 compared to \$258 million for the same period in the prior year. The decrease was driven by decreases in noninterest income and net interest income and an increase in noninterest expense partially offset by a decrease in the provision for loan and lease losses.

Net interest income decreased \$1 million and \$23 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The decreases for both periods were primarily driven by changes made to the Bancorp's deposit advance product beginning January 1, 2015 and a decline in interest income on average home equity loans driven by a decrease in average balances compared to the same periods in the prior year. The decreases for both periods were partially offset by a decrease in FTP charges on loans and leases due to a decrease in average balances and a decrease in interest expense on average savings and money market deposits due to a decline in the rates paid. The decreases for both periods were also partially offset by increases in FTP credits for demand deposits and other time deposits driven by average deposit growth and an increase in FTP credits for interest checking deposits due to an increase in FTP credit rates for this product.

Provision for loan and lease losses decreased \$11 million and \$20 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to improved credit trends. Net charge-offs as a percent of average portfolio loans and leases decreased to 97 bps for both the three and nine months ended September 30, 2015 compared to 116 bps and 110 bps for the three and nine months ended September 30, 2014, respectively.

Noninterest income increased \$3 million and decreased \$70 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three months ended was driven by an increase in other noninterest income and card and processing revenue. The decrease for the nine months ended was primarily driven by a decrease in other noninterest income partially offset by increases in card and processing revenue and investment advisory revenue. Other noninterest income decreased \$83 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily driven by impairment losses associated with lower of cost or market adjustments on long-lived assets of \$104 million compared to \$18 million for the nine months ended September 30, 2014. Refer to Note 7 of the Notes to Condensed Consolidated Financial Statements for additional information on bank premises and equipment and the Branch Consolidation and Sales Plan. Card and processing revenue increased \$8 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to an increase in the number of actively used cards and an increase in customer spend volume. Investment advisory revenue increased \$5 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to an increase in recurring securities brokerage fees driven by higher sales volume as well as an increase in private client service fees due to an increase in personal asset management fees.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Noninterest expense increased \$4 million and \$15 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increases for both periods were due to increases in other noninterest expense and card and processing expense partially offset by a decrease in personnel costs. Other noninterest expense increased \$4 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to increases in corporate overhead allocations and higher operational losses. Other noninterest expense increased \$15 million for the nine months ended September 30, 2015 compared to the same period in the prior year due to higher operational losses and increases in marketing expense and corporate overhead allocations. Card and processing expense increased \$3 million and \$10 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year driven by increased fraud prevention related expenses. These increases were partially offset by decreases of \$4 million and \$11 million in personnel costs for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year driven by a decrease in employee benefits expense due to changes in the Bancorp's employee benefit plan implemented in 2015.

Average consumer loans decreased \$713 million and \$568 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. These decreases were primarily driven by decreases in average home equity portfolio loans of \$427 million and \$304 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year and decreases in average residential mortgage portfolio loans of \$261 million and \$265 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year as payoffs exceeded new loan production. Average commercial loans decreased \$174 million and \$214 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. These decreases were primarily driven by decreases in average commercial mortgage portfolio loans of \$109 million and \$135 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year and decreases in average commercial and industrial portfolio loans of \$71 million and \$87 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year as payoffs exceeded new loan production.

Average core deposits increased \$1.9 billion and \$2.9 billion for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. These increases were primarily driven by net growth in average savings and money market deposits of \$668 million and \$1.7 billion, respectively, and growth in average demand deposits of \$971 million and \$838 million, respectively, for the three and nine months ended September 30, 2015 compared to the same periods in the prior year. The net growth in average savings and money market deposits was driven by a promotional product offering and the growth in average demand deposits was driven by an increase in average account balances.

**Consumer Lending**

Consumer Lending includes the Bancorp's mortgage, home equity, automobile and other indirect lending activities. Direct lending activities include the origination, retention and servicing of mortgage and home equity loans or lines of credit, sales and securitizations of those loans, pools of loans or lines of credit, and all associated hedging activities. Indirect lending activities include extending loans to consumers through correspondent lenders and automobile

dealers.

The following table contains selected financial data for the Consumer Lending segment:

**TABLE 29: Consumer Lending**

| (\$ in millions)                                    | For the three months ended |        | For the nine months ended |        |
|---|----------------------------|--------|---------------------------|--------|
|   | September 30,              |        | September 30,             |        |
|   | 2015                       | 2014   | 2015                      | 2014   |
| <b>Income Statement Data</b>                        |                            |        |                           |        |
| Net interest income                                 | \$ 62                      | 64     | 187                       | 193    |
| Provision for loan and lease losses                 | 11                         | 17     | 33                        | 55     |
| Noninterest income:                                 |                            |        |                           |        |
| Mortgage banking net revenue                        | 69                         | 60     | 268                       | 244    |
| Other noninterest income                            | 7                          | 11     | 59                        | 36     |
| Noninterest expense:                                |                            |        |                           |        |
| Personnel costs                                     | 47                         | 43     | 139                       | 140    |
| Other noninterest expense                           | 59                         | 71     | 183                       | 306    |
| Income (loss) before taxes                          | 21                         | 4      | 159                       | (28)   |
| Applicable income tax expense (benefit)             | 8                          | 1      | 57                        | (10)   |
| Net income (loss)                                   | \$ 13                      | 3      | 102                       | (18)   |
| <b>Average Balance Sheet Data</b>                   |                            |        |                           |        |
| Residential mortgage loans, including held for sale | \$ 9,393                   | 8,873  | 9,089                     | 8,808  |
| Home equity   | 414                        | 486    | 433                       | 504    |
| Automobile loans                                    | 11,381                     | 11,562 | 11,401                    | 11,510 |
| Other consumer loans, including held for sale       | 3                          | 12     | 14                        | 19     |

Net income was \$13 million for the three months ended September 30, 2015 compared to net income of \$3 million for the three months ended September 30, 2014. Net income was \$102 million for the nine months ended September 30, 2015 compared to a net loss of \$18 million for the nine months ended September 30, 2014. The increase for both periods was driven by decreases in noninterest expense and the provision for loan and lease losses and an increase in noninterest income partially offset by a decrease in net interest income.

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Net interest income decreased \$2 million and \$6 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The decreases were primarily driven by lower yields on average residential mortgage loans and average automobile loans partially offset by decreases in FTP charges on loans and leases.

Provision for loan and lease losses decreased \$6 million and \$22 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to improved delinquency metrics on residential mortgage loans and home equity loans. Net charge-offs as a percent of average portfolio loans and leases decreased to 22 bps for the three months ended September 30, 2015 compared to 33 bps for the same period in the prior year and decreased to 22 bps for the nine months ended September 30, 2015 compared to 36 bps for the same period in the prior year.

Noninterest income increased \$5 million and \$47 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2015 was driven by an increase in mortgage banking net revenue partially offset by a decrease in other noninterest income. Mortgage banking net revenue increased \$9 million for the three months ended September 30, 2015 from the same period in the prior year driven by a \$12 million increase in mortgage origination fees and gains on loan sales partially offset by a \$3 million decrease in net mortgage servicing revenue. Other noninterest income decreased \$4 million for the three months ended September 30, 2015 from the same period in the prior year driven by a decrease in retail service fees. The increase for the nine months ended September 30, 2015 was driven by increases in mortgage banking net revenue and other noninterest income. Mortgage banking net revenue increased \$24 million for the nine months ended September 30, 2015 compared to the same period in the prior year driven by a \$14 million increase in mortgage origination fees and gains on loan sales and a \$10 million increase in net mortgage servicing revenue. Refer to the Noninterest Income section of MD&A for additional information on the fluctuations in mortgage banking net revenue. Other noninterest income increased \$23 million for the nine months ended September 30, 2015 from the same period in the prior year primarily driven by a \$37 million gain on the sale of held for sale residential mortgage loans classified as TDRs in the first quarter of 2015. This increase was partially offset by a decrease in retail service fees.

Noninterest expense decreased \$8 million and \$124 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year driven by decreases in other noninterest expense of \$12 million and \$123 million, respectively. The decrease for both periods was primarily due to decreased legal expenses and operational losses. The decrease for the three months ended September 30, 2015 was partially offset by an increase of \$4 million in personnel costs driven by increased compensation expense due to increases in incentive compensation, primarily in the mortgage business, and base compensation.

Average consumer loans and leases increased \$258 million and \$96 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. Average residential mortgage loans, including held for sale, increased \$520 million and \$281 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to the continued retention of certain conforming ARMs and certain other fixed-rate loans. Average automobile loans decreased \$181 million and \$109 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the

prior year and average home equity loans decreased \$72 million and \$71 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year as payoffs exceeded new loan production.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Investment Advisors**

Investment Advisors provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. Investment Advisors is made up of four main businesses: FTS, an indirect wholly-owned subsidiary of the Bancorp; ClearArc Capital, Inc., an indirect wholly-owned subsidiary of the Bancorp; Fifth Third Private Bank; and Fifth Third Institutional Services. FTS offers full service retail brokerage services to individual clients and broker dealer services to the institutional marketplace. ClearArc Capital, Inc. provides asset management services. Fifth Third Private Bank offers holistic strategies to affluent clients in wealth planning, investing, insurance and wealth protection. Fifth Third Institutional Services provides advisory services for institutional clients including states and municipalities.

The following table contains selected financial data for the Investment Advisors segment:

**TABLE 30: Investment Advisors**

| (\$ in millions)                    | For the three months ended |       | For the nine months ended |       |
|-------------------------------------|----------------------------|-------|---------------------------|-------|
|                                     | September 30,<br>2015      | 2014  | September 30,<br>2015     | 2014  |
| <b>Income Statement Data</b>        |                            |       |                           |       |
| Net interest income                 | \$ 33                      | 30    | 91                        | 90    |
| Provision for loan and lease losses |                            | 1     | 3                         | 3     |
| Noninterest income:                 |                            |       |                           |       |
| Investment advisory revenue         | 100                        | 101   | 306                       | 300   |
| Other noninterest income            | 2                          | 1     | 9                         | 8     |
| Noninterest expense:                |                            |       |                           |       |
| Personnel costs                     | 42                         | 39    | 127                       | 122   |
| Other noninterest expense           | 70                         | 72    | 215                       | 211   |
| Income before taxes                 | 23                         | 20    | 61                        | 62    |
| Applicable income tax expense       | 8                          | 7     | 21                        | 22    |
| Net income                          | \$ 15                      | 13    | 40                        | 40    |
| <b>Average Balance Sheet Data</b>   |                            |       |                           |       |
| Loans and leases                    | \$ 2,982                   | 2,216 | 2,732                     | 2,233 |
| Core deposits                       | 8,944                      | 9,524 | 9,489                     | 9,473 |

Net income was \$15 million for the three months ended September 30, 2015 compared to net income of \$13 million for the same period in the prior year. The increase was driven primarily by an increase in net interest income. Net income was \$40 million for both the nine months ended September 30, 2015 and 2014. Net income was flat as a result

of an increase in noninterest income offset by an increase in noninterest expense.

Net interest income increased \$3 million and \$1 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for both periods was primarily due to an increase in interest income on loans and leases due to increases in average balances and an increase in FTP credits on interest checking deposits due to an increase in FTP credit rates partially offset by increases on FTP charges on loans and leases driven by increases in average balances.

Provision for loan and lease losses decreased \$1 million and was flat for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year.

Noninterest income was flat and increased \$7 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the nine months ended was primarily due to a \$6 million increase in investment advisory revenue as a result of higher recurring securities brokerage fees driven by higher sales volume.

Noninterest expense increased \$1 million and \$9 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2015 was primarily driven by an increase in personnel costs partially offset by a decrease in other noninterest expense. The increase for the nine months ended September 30, 2015 was primarily driven by increases in personnel costs and other noninterest expense. Personnel costs increased \$3 million and \$5 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to increased compensation expense driven by higher incentive compensation and base compensation. Other noninterest expense decreased \$2 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to a decrease in corporate overhead allocations. Other noninterest expense increased \$4 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to an increase in third-party custodial expenses and higher operational losses.

Average loans and leases increased \$766 million and \$499 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase for both the three and nine months ended September 30, 2015 was primarily due to increases in average residential mortgage loans and average other consumer loans primarily driven by increases in new loan origination activity. The increase for the nine months ended September 30, 2015 was partially offset by a decrease in average home equity loans as payoffs exceeded new loan production.

Average core deposits decreased \$580 million for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to a decline in average interest checking balances. Average core deposits increased \$16 million for the nine months ended September 30, 2015 compared to the same period in the prior year.

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**General Corporate and Other**

General Corporate and Other includes the unallocated portion of the investment securities portfolio, securities gains and losses, certain non-core deposit funding, unassigned equity, provision expense in excess of net charge-offs or a benefit from the reduction of the ALLL, the payment of preferred stock dividends and certain support activities and other items not attributed to the business segments.

Net interest income for the three months ended September 30, 2015 was a negative \$2 million compared to net interest income of \$2 million for the same period in the prior year. Net interest income for the nine months ended September 30, 2015 was \$3 million compared to \$31 million for the same period in the prior year. Decreases in net interest income for both periods were primarily due to increases in FTP credits on deposits allocated to business segments driven by increases in average deposits. The remaining decrease in net interest income was due to an increase in interest expense on long-term debt and a decrease in the benefit related to the FTP charges on loans and leases partially offset by an increase in interest income on taxable securities. Results for the three and nine months ended September 30, 2015 were impacted by a benefit of \$32 million and \$61 million, respectively, compared to a benefit of \$44 million and \$168 million for the three and nine months ended September 30, 2014, respectively, due to reductions in the ALLL.

Noninterest income increased \$175 million and \$112 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase in noninterest income for both periods was primarily driven by positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC. The positive valuation adjustment on the stock warrant associated with Vantiv Holding, LLC was \$130 million for the three months ended September 30, 2015 compared to the negative valuation adjustment of \$53 million during the three months ended September 30, 2014. The positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC were \$215 million for the nine months ended September 30, 2015 compared to the negative valuation adjustments of \$26 million during the nine months ended September 30, 2014. Additionally, equity method earnings from the Bancorp's interest in Vantiv Holding, LLC increased \$4 million compared to the three months ended September 30, 2014 and increased \$9 million compared to the nine months ended September 30, 2014. The nine months ended September 30, 2014 included the impact of a gain of \$125 million on the sale of Vantiv, Inc. shares in the second quarter of 2014. Noninterest income also included a \$5 million increase in the negative valuation adjustment related to the Visa total return swap for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. The nine months ended September 30, 2015 included an \$8 million increase in the negative valuation adjustments related to the Visa total return swap compared to the same period in the prior year. For additional information on the valuation of the swap associated with the sale of Visa, Inc. Class B shares, refer to Note 22 of the Notes to Condensed Consolidated Financial Statements

Noninterest expense for both the three and nine months ended September 30, 2015 was an expense of \$25 million compared to a benefit of \$14 million and \$31 million for the three and nine months ended September 30, 2014, respectively. The increase for the three months ended September 30, 2015 compared to the same period in the prior year was primarily due to increases in personnel costs, an increase in the provision for the reserve for unfunded commitments and an increase in FDIC insurance and other taxes partially offset by increased corporate overhead allocations from General Corporate and Other to the other business segments. The increase for the nine months ended

September 30, 2015 compared to the same period in the prior year was primarily due to increases in personnel costs, an increase in the provision for the reserve for unfunded commitments and increased litigation and regulatory activity partially offset by increased corporate overhead allocations from General Corporate and Other to the other business segments.

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**RISK MANAGEMENT OVERVIEW**

Managing risk is an essential component of successfully operating a financial services company. The Bancorp's risk management approach includes processes for identifying, assessing, managing, monitoring and reporting risks. The ERM division, led by the Bancorp's Chief Risk Officer ensures the consistency and adequacy of the Bancorp's risk management approach within the structure of the Bancorp's operating model. In addition, the Internal Audit division provides an independent assessment of the Bancorp's internal control structure and related systems and processes.

The assumption of risk requires robust and active risk management practices that comprise an integrated and comprehensive set of activities, measures and strategies that apply to the entire organization. The Bancorp has established a Risk Appetite Framework, approved by the Board, that provides the foundations of corporate risk capacity, risk appetite and risk tolerances. The Bancorp's risk capacity is represented by its available financial resources. Risk capacity sets an absolute limit on risk-assumption in the Bancorp's annual and strategic plans. The Bancorp understands that not all financial resources may persist as viable loss buffers over time. Further, consideration must be given to regulatory capital buffers required per Capital Policy Targets that would reduce risk capacity. Those factors take the form of capacity adjustments to arrive at an Operating Risk Capacity which represents the operating risk level the Bancorp can assume while maintaining its solvency standard. The Bancorp's policy currently discounts its Operating Risk Capacity by a minimum of five percent to provide a buffer; as a result, the Bancorp's risk appetite is limited by policy to, at most, 95% of its Operating Risk Capacity.

Economic capital is the amount of unencumbered financial resources required to support the Bancorp's risks. The Bancorp measures economic capital under the assumption that it expects to maintain debt ratings at strong investment grade levels over time. The Bancorp's capital policies require that the Operating Risk Capacity less the aforementioned buffer exceed the calculated economic capital required in its business.

Risk appetite is the aggregate amount of risk the Bancorp is willing to accept in pursuit of its strategic and financial objectives. By establishing boundaries around risk taking and business decisions, and by incorporating the needs and goals of its shareholders, regulators, rating agencies and customers, the Bancorp's risk appetite is aligned with its priorities and goals. Risk tolerance is the maximum amount of risk applicable to each of the eight specific risk categories included in its Enterprise Risk Management Framework. This is expressed primarily in qualitative terms, however certain risk types also have quantitative metrics that are used to measure the Bancorp's level of risk against its risk tolerances. The Bancorp's risk appetite and risk tolerances are supported by risk targets and risk limits. Those limits are used to monitor the amount of risk assumed at a granular level. On a quarterly basis, the Risk and Compliance Committee of the Board reviews performance against key risk limits as well as current assessments of each of the eight risk types relative to the established tolerance. Any results over limits or outside of tolerance require the development of an action plan that describes actions to be taken to return the measure to within the limit or tolerance.

The risks faced by the Bancorp include, but are not limited to, credit, market, liquidity, operational, regulatory compliance, legal, reputational and strategic. Each of these risks is managed through the Bancorp's risk program which includes the following key functions:

Enterprise Risk Management is responsible for developing and overseeing the implementation of risk programs and reporting that facilitate a broad integrated view of risk. The department also leads the continual fostering of a strong risk management culture and the framework, policies and committees that support effective risk governance, including the oversight of Sarbanes-Oxley compliance;

Commercial Credit Risk Management is responsible for overseeing the safety and soundness of the commercial loan portfolio within an independent portfolio management framework that supports the Bancorp's commercial loan growth strategies and underwriting practices, ensuring portfolio optimization and appropriate risk controls;

Risk Strategies and Reporting is responsible for quantitative analysis needed to support the commercial dual rating methodology, ALLL methodology and analytics needed to assess credit risk and develop mitigation strategies related to that risk. The department also provides oversight, reporting and monitoring of commercial underwriting and credit administration processes. The Risk Strategies and Reporting department is also responsible for the economic capital program;

Consumer Credit Risk Management is responsible for overseeing the safety and soundness of the consumer portfolio within an independent management framework that supports the Bancorp's consumer loan growth strategies, ensuring portfolio optimization, appropriate risk controls and oversight, reporting, and monitoring of underwriting and credit administration processes;

Operational Risk Management works with lines of business and regional management to maintain processes to monitor and manage all aspects of operational risk, including ensuring consistency in application of operational risk programs;

Bank Protection oversees and manages fraud prevention and detection and provides investigative and recovery services for the Bancorp;

Capital Markets Risk Management is responsible for instituting, monitoring, and reporting appropriate trading limits, monitoring liquidity, interest rate risk and risk tolerances within Treasury, Mortgage, and Capital Markets groups and utilizing a value at risk model for Bancorp market risk exposure;

Regulatory Compliance Risk Management ensures that processes are in place to monitor and comply with federal and state banking regulations, including processes related to fiduciary, CRA and fair lending compliance. The function also has the responsibility for maintenance of an enterprise-wide compliance framework; and

The ERM division creates and maintains other functions, committees or processes as are necessary to effectively oversee risk management throughout the Bancorp.

Risk management oversight and governance is provided by the Risk and Compliance Committee of the Board of Directors and through multiple management committees whose membership includes a broad cross-section of

line-of-business, regional market and support representatives. The Risk and Compliance Committee of the Board of Directors consists of five outside directors and has the responsibility for the oversight of risk management for the Bancorp, as well as for the Bancorp's overall aggregate risk profile.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The Risk and Compliance Committee of the Board of Directors has approved the formation of key management governance committees that are responsible for evaluating risks and controls. The primary committee responsible for the oversight of risk management is the ERM. Committees accountable to the ERM, which support the core risk programs, are the Corporate Credit Committee, the Operational Risk Committee, the Management Compliance Committee, the Asset/Liability Committee and the Enterprise Marketing Committee. Other committees accountable to the ERM oversee the ALLL, capital, model risk and regulatory change management functions. There are also new products and initiatives processes applicable to every line of business to ensure an appropriate standard readiness assessment is performed before launching a new product or initiative. Significant risk policies approved by the management governance committees are also reviewed and approved by the Risk and Compliance Committee of the Board of Directors.

Credit Risk Review is an independent function responsible for evaluating the sufficiency of underwriting, documentation and approval processes for consumer and commercial credits, the accuracy of risk grades assigned to commercial credit exposure, nonaccrual status, specific reserves and monitoring for charge-offs. Credit Risk Review reports directly to the Risk and Compliance Committee of the Board of Directors and administratively to the Chief Auditor.

**CREDIT RISK MANAGEMENT**

The objective of the Bancorp's credit risk management strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations to the Bancorp. The Bancorp's credit risk management strategy is based on three core principles: conservatism, diversification and monitoring. The Bancorp believes that effective credit risk management begins with conservative lending practices. These practices include conservative exposure and counterparty limits and conservative underwriting, documentation and collection standards. The Bancorp's credit risk management strategy also emphasizes diversification on a geographic, industry and customer level as well as ongoing portfolio monitoring and timely management reviews of large credit exposures and credits experiencing deterioration of credit quality. Credit officers with the authority to extend credit are delegated specific authority amounts, the utilization of which is closely monitored. Underwriting activities are centrally managed, and ERM manages the policy and the authority delegation process directly. The Credit Risk Review function provides objective assessments of the quality of underwriting and documentation, the accuracy of risk grades and the charge-off, nonaccrual and reserve analysis process. The Bancorp's credit review process and overall assessment of the adequacy of the allowance for credit losses is based on quarterly assessments of the probable estimated losses inherent in the loan and lease portfolio. The Bancorp uses these assessments to promptly identify potential problem loans or leases within the portfolio, maintain an adequate reserve and take any necessary charge-offs. The Bancorp defines potential problem loans and leases as those rated substandard that do not meet the definition of a nonperforming asset or a restructured loan. Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for further information on the Bancorp's credit grade categories, which are derived from standard regulatory rating definitions.

The following tables provide a summary of potential problem loans and leases:

**TABLE 31: Potential Problem Loans and Leases**

| As of September 30, 2015 (\$ in millions) | Carrying Value | Unpaid Principal Balance | Exposure |
|---|----------------|--------------------------|----------|
| Commercial and industrial loans           | \$ 1,396       | 1,399                    | 1,885    |
| Commercial mortgage loans                 | 194            | 195                      | 196      |
| Commercial construction loans             | 8              | 8                        | 11       |
| Commercial leases                         | 37             | 37                       | 38       |
| Total potential problem loans and leases  | \$ 1,635       | 1,639                    | 2,130    |

**TABLE 32: Potential Problem Loans and Leases**

| As of December 31, 2014 (\$ in millions) | Carrying Value | Unpaid Principal Balance | Exposure |
|--|----------------|--------------------------|----------|
| Commercial and industrial loans          | \$ 1,022       | 1,028                    | 1,344    |
| Commercial mortgage loans                | 272            | 273                      | 273      |
| Commercial construction loans            | 7              | 7                        | 11       |
| Commercial leases                        | 29             | 29                       | 29       |
| Total potential problem loans and leases | \$ 1,330       | 1,337                    | 1,657    |

In addition to the individual review of larger commercial loans that exhibit probable or observed credit weaknesses, the commercial credit review process includes the use of two risk grading systems. The risk grading system currently utilized for reserve analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system for credit approval and pricing, portfolio monitoring and capital allocation that includes a through-the-cycle rating philosophy for modeling expected losses. The dual risk rating system includes thirteen probabilities of default grade categories and an additional six grade categories for estimating losses given an event of default. The probability of default and loss given default evaluations are not separated in the ten-category risk rating system. The Bancorp has completed significant validation and testing of the dual risk rating system as a commercial credit risk management tool. The Bancorp is assessing the necessary modifications to the dual risk rating system outputs to develop a U.S. GAAP compliant ALLL model and will make a decision on the use of modified dual risk ratings for purposes of determining the Bancorp's ALLL once the FASB has issued a final standard regarding proposed methodology changes to the determination of credit impairment as outlined in the FASB's Proposed ASU-*Financial Instruments-Credit Losses* (Subtopic 825-15) issued on December 20, 2012. Scoring systems, various analytical tools and portfolio performance monitoring are used to assess the credit risk in the Bancorp's homogenous consumer and small business loan portfolios.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Overview**

The outlook is for reasonably positive economic and employment growth in the U.S. during the remainder of 2015. The U.S. job market is slowly but steadily improving. Housing prices have largely stabilized and are increasing in many markets and there has been an increase in new loan origination activity resulting from an increase in demand and targeted marketing efforts. However, a weakness in the global economic conditions, stress on capital markets, a prolonged downturn in commodity prices and a relatively low interest rate environment may directly or indirectly impact the Bancorp's growth and profitability.

Among consumer portfolios, residential mortgage and brokered home equity portfolios exhibited the most stress. As of September 30, 2015, consumer real estate loans originated from 2005 to 2008 represent approximately 21% of the consumer real estate portfolio and approximately 59% and 62% of total losses for the three and nine months ended September 30, 2015, respectively. Loss rates continue to improve as newer vintages are performing within expectations. Currently, the level of new commercial real estate fundings is slightly above the amortization and pay-off of the portfolio with growth in the commercial construction portfolio as those markets have rebounded. The Bancorp continues to engage in loss mitigation strategies such as reducing credit commitments, restructuring certain commercial and consumer loans, as well as utilizing commercial and consumer loan workout teams. For commercial and consumer loans owned by the Bancorp, loan modification strategies are developed that are workable for both the borrower and the Bancorp when the borrower displays a willingness to cooperate. These strategies typically involve either a reduction of the stated interest rate of the loan, an extension of the loan's maturity date with a stated rate lower than the current market rate for a new loan with similar risk, or in limited circumstances, a reduction of the principal balance of the loan or the loan's accrued interest. For residential mortgage loans serviced for FHLMC and FNMA, the Bancorp participates in the HAMP and HARP 2.0 programs. For loans refinanced under the HARP 2.0 program, the Bancorp strictly adheres to the underwriting requirements of the program and promptly sells the refinanced loan back to the agencies. Loan restructuring under the HAMP program is performed on behalf of FHLMC or FNMA and the Bancorp does not take possession of these loans during the modification process. Therefore, participation in these programs does not significantly impact the Bancorp's credit quality statistics. The Bancorp participates in trial modifications in conjunction with the HAMP program for loans it services for FHLMC and FNMA. As these trial modifications relate to loans serviced for others, they are not included in the Bancorp's TDRs as they are not assets of the Bancorp. In the event there is a representation and warranty violation on loans sold through the programs, the Bancorp may be required to repurchase the sold loan. As of September 30, 2015, repurchased loans restructured or refinanced under these programs were immaterial to the Condensed Consolidated Financial Statements. Additionally, as of September 30, 2015, \$16 million of loans refinanced under HARP 2.0 were included in loans held for sale in the Condensed Consolidated Balance Sheets. For the three and nine months ended September 30, 2015, the Bancorp recognized \$1 million and \$5 million, respectively, of noninterest income in mortgage banking net revenue in the Condensed Consolidated Statements of Income related to the sale of loans restructured or refinanced under the HAMP and HARP 2.0 programs compared to \$2 million and \$10 million for the same periods in the prior year.

In the financial services industry, there has been heightened focus on foreclosure activity and processes. The Bancorp actively works with borrowers experiencing difficulties and has regularly modified or provided forbearance to borrowers where a workable solution could be found. Foreclosure is a last resort, and the Bancorp undertakes foreclosures only when it believes they are necessary and appropriate and is careful to ensure that customer and loan

data are accurate.

At September 30, 2015, the Bancorp's non-power producing energy portfolio balance was \$1.6 billion, representing approximately 2% of total loans and leases. This portfolio continues to be an important part of the Bancorp's commercial business strategy. Due to the sensitivity of this portfolio to downward movements in oil prices, the Bancorp has seen migration in the portfolio into criticized classifications during 2015. When establishing the ALLL, all portfolio and general economic factors are considered, including the level of criticized assets and the level of commodity prices.

### **Commercial Portfolio**

The Bancorp's credit risk management strategy includes minimizing concentrations of risk through diversification. The Bancorp has commercial loan concentration limits based on industry, lines of business within the commercial segment, geography and credit product type.

The risk within the commercial loan and lease portfolio is managed and monitored through an underwriting process utilizing detailed origination policies, continuous loan level reviews, monitoring of industry concentration and product type limits and continuous portfolio risk management reporting. The origination policies for commercial real estate outline the risks and underwriting requirements for owner and nonowner-occupied and construction lending. Included in the policies are maturity and amortization terms, maximum LTVs, minimum debt service coverage ratios, construction loan monitoring procedures, appraisal requirements, pre-leasing requirements (as applicable), sensitivity and pro-forma analysis requirements and interest rate sensitivity. The Bancorp requires a valuation of real estate collateral, which may include third-party appraisals, be performed at the time of origination and renewal in accordance with regulatory requirements and on an as needed basis when market conditions justify. Although the Bancorp does not back test these collateral value assumptions, the Bancorp maintains an appraisal review department to order and review third-party appraisals in accordance with regulatory requirements. Collateral values on criticized assets with relationships exceeding \$1 million are reviewed quarterly to assess the appropriateness of the value ascribed in the assessment of charge-offs and specific reserves. In addition, the Bancorp applies incremental valuation adjustments to older appraisals that relate to collateral dependent loans, which can currently be up to 20-30% of the appraised value based on the type of collateral. These incremental valuation adjustments generally reflect the age of the most recent appraisal as well as collateral type. Trends in collateral values, such as home price indices and recent asset dispositions, are monitored in order to determine whether changes to the appraisal adjustments are warranted. Other factors such as local market conditions or location may also be considered as necessary.

The Bancorp assesses all real estate and non-real estate collateral securing a loan and considers all cross collateralized loans in the calculation of the LTV ratio. The following tables provide detail on the most recent LTV ratios for commercial mortgage loans greater than \$1 million, excluding impaired commercial mortgage loans individually evaluated. The Bancorp does not typically aggregate the LTV ratios for commercial mortgage loans less than \$1 million.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 33: Commercial Mortgage Loans Outstanding by LTV, Loans Greater Than \$1 Million**

| As of September 30, 2015 (\$ in millions)   | LTV > 100% | LTV 80-100% | LTV < 80% |
|---|------------|-------------|-----------|
| Commercial mortgage owner-occupied loans    | \$ 145     | 272         | 2,038     |
| Commercial mortgage nonowner-occupied loans | 139        | 209         | 2,015     |
| Total                                       | \$ 284     | 481         | 4,053     |

**TABLE 34: Commercial Mortgage Loans Outstanding by LTV, Loans Greater Than \$1 Million**

| As of December 31, 2014 (\$ in millions)    | LTV > 100% | LTV 80-100% | LTV < 80% |
|---|------------|-------------|-----------|
| Commercial mortgage owner-occupied loans    | \$ 148     | 248         | 1,982     |
| Commercial mortgage nonowner-occupied loans | 243        | 333         | 2,423     |
| Total                                       | \$ 391     | 581         | 4,405     |

The following table provides detail on commercial loans and leases by industry classification (as defined by the North American Industry Classification System), by loan size and by state, illustrating the diversity and granularity of the Bancorp's commercial loans and leases as of:

**TABLE 35: Commercial Loan and Lease Portfolio (excluding loans held for sale)**

| (\$ in millions)                 | September 30, 2015 |          |           | December 31, 2014 |          |           |
|----------------------------------|--------------------|----------|-----------|-------------------|----------|-----------|
|                                  | Outstanding        | Exposure | Nonaccrua | Outstanding       | Exposure | Nonaccrua |
| By industry:                     |                    |          |           |                   |          |           |
| Manufacturing                    | \$ 11,035          | 20,710   | 74        | 10,315            | 20,496   | 55        |
| Real estate                      | 6,402              | 10,017   | 55        | 5,392             | 8,612    | 32        |
| Financial services and insurance | 5,840              | 13,108   | 13        | 6,097             | 13,557   | 20        |
| Healthcare                       | 4,662              | 6,589    | 25        | 4,133             | 6,322    | 20        |
| Business services                | 4,438              | 6,747    | 33        | 4,644             | 7,109    | 79        |
| Wholesale trade                  | 4,353              | 8,191    | 23        | 4,314             | 8,004    | 62        |
| Retail trade                     | 3,895              | 7,597    | 13        | 3,754             | 7,190    | 22        |
| Transportation and warehousing   | 3,165              | 4,751    |           | 3,012             | 4,276    | 1         |
| Communication and information    | 3,070              | 5,086    | 2         | 2,409             | 4,140    | 3         |
| Construction                     | 1,956              | 3,375    | 11        | 1,864             | 3,352    | 25        |
| Accommodation and food           | 1,936              | 3,249    | 7         | 1,712             | 2,945    | 9         |

Edgar Filing: FIFTH THIRD BANCORP - Form 10-Q

|                              |                  |                |            |               |               |            |
|------------------------------|------------------|----------------|------------|---------------|---------------|------------|
| Entertainment and recreation | 1,724            | 2,981          | 7          | 1,451         | 2,321         | 10         |
| Mining                       | 1,525            | 2,755          |            | 1,862         | 3,323         | 3          |
| Utilities                    | 1,105            | 2,771          |            | 1,044         | 2,551         |            |
| Other services               | 872              | 1,212          | 9          | 881           | 1,207         | 11         |
| Public administration        | 523              | 620            |            | 567           | 658           |            |
| Agribusiness                 | 341              | 526            | 5          | 318           | 444           | 11         |
| Individuals                  | 159              | 209            | 3          | 170           | 201           | 4          |
| Other                        | 7                | 7              | 6          | 14            | 17            |            |
| <b>Total</b>                 | <b>\$ 57,008</b> | <b>100,501</b> | <b>286</b> | <b>53,953</b> | <b>96,725</b> | <b>367</b> |

By loan size:

|                              |              |            |            |            |            |            |
|------------------------------|--------------|------------|------------|------------|------------|------------|
| Less than \$200,000          | 1 %          | 1          | 9          | 1          | 1          | 6          |
| \$200,000 to \$1 million     | 4            | 3          | 13         | 5          | 3          | 15         |
| \$1 million to \$5 million   | 10           | 8          | 26         | 11         | 9          | 22         |
| \$5 million to \$10 million  | 8            | 7          | 41         | 8          | 7          | 19         |
| \$10 million to \$25 million | 24           | 21         | 11         | 25         | 22         | 24         |
| Greater than \$25 million    | 53           | 60         |            | 50         | 58         | 14         |
| <b>Total</b>                 | <b>100 %</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |

By state:

|                  |              |            |            |            |            |            |
|------------------|--------------|------------|------------|------------|------------|------------|
| Ohio             | 16 %         | 17         | 12         | 17         | 20         | 11         |
| Michigan         | 8            | 7          | 9          | 9          | 8          | 11         |
| Illinois         | 8            | 7          | 12         | 7          | 8          | 6          |
| Florida          | 7            | 7          | 19         | 7          | 6          | 17         |
| Indiana          | 5            | 5          | 5          | 5          | 5          | 5          |
| North Carolina   | 4            | 4          | 1          | 3          | 4          | 2          |
| Kentucky         | 3            | 3          | 2          | 3          | 3          | 2          |
| Tennessee        | 3            | 3          |            | 3          | 3          |            |
| Pennsylvania     | 3            | 3          | 7          | 3          | 2          | 7          |
| All other states | 43           | 44         | 33         | 43         | 41         | 39         |
| <b>Total</b>     | <b>100 %</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The Bancorp has identified certain categories of loans which it believes represent a higher level of risk compared to the rest of the Bancorp's commercial loan portfolio, due to economic or market conditions within the Bancorp's key lending areas. The following tables provide analysis of nonowner-occupied commercial real estate loans (excludes loans held for sale):

**TABLE 36: Nonowner-Occupied Commercial Real Estate<sup>(a)</sup>**

| As of September 30, 2015<br>(\$ in millions) |             |          |          |            |                     | Net Charge-offs (Recoveries) for<br>September 30, 2015 |             |
|--|-------------|----------|----------|------------|---------------------|--|-------------|
|  | Outstanding | Exposure | 90 Days  |            | Past Due Nonaccrual | Three Months   | Nine Months |
| By state:                                    |             |          | Past Due | Nonaccrual |                     | Ended  | Ended       |
| Ohio   | \$ 1,319    | 1,600    |          |            | 7                   |  | (1)         |
| Illinois                                     | 678         | 1,082    |          |            | 6                   |  |             |
| Florida                                      | 636         | 1,002    |          |            | 10                  |  | 3           |
| Michigan                                     | 612         | 673      |          |            | 14                  | 3  | 3           |
| North Carolina                               | 354         | 597      |          |            |                     |  | (1)         |
| Indiana                                      | 288         | 409      | 2        |            |                     |  |             |
| All other states                             | 2,396       | 4,373    |          |            | 26                  | 7  | 12          |
| Total  | \$ 6,283    | 9,736    | 2        |            | 63                  | 10   | 16          |

*(a) Included in commercial mortgage loans and commercial construction loans in the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A.*

**TABLE 37: Nonowner-Occupied Commercial Real Estate<sup>(a)</sup>**

| As of September 30, 2014<br>(\$ in millions) |             |          |          |            |                     | Net Charge-offs (Recoveries) for<br>September 30, 2014 |             |
|--|-------------|----------|----------|------------|---------------------|--|-------------|
|  | Outstanding | Exposure | 90 Days  |            | Past Due Nonaccrual | Three Months   | Nine Months |
| By state:                                    |             |          | Past Due | Nonaccrual |                     | Ended  | Ended       |
| Ohio   | \$ 1,224    | 1,646    | 1        |            | 10                  | (2)  | (2)         |
| Illinois                                     | 432         | 867      |          |            | 6                   |  | 2           |
| Florida                                      | 528         | 768      |          |            | 11                  |  | 1           |
| Michigan                                     | 762         | 825      |          |            | 12                  |  | 5           |
| North Carolina                               | 350         | 521      |          |            | 2                   |  | (1)         |

Edgar Filing: FIFTH THIRD BANCORP - Form 10-Q

|                  |          |       |   |    |   |
|------------------|----------|-------|---|----|---|
| Indiana          | 238      | 333   | 2 |    |   |
| All other states | 1,678    | 3,047 | 6 | 2  | 2 |
| Total            | \$ 5,212 | 8,007 | 1 | 49 | 7 |

*(a) Included in commercial mortgage loans and commercial construction loans in the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A.*

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Consumer Portfolio**

The Bancorp's consumer portfolio is materially comprised of three categories of loans: residential mortgage loans, home equity and automobile loans. The Bancorp has identified certain categories within these loan types which it believes represent a higher level of risk compared to the rest of the consumer loan portfolio due to high loan amount to collateral value. The Bancorp does not update LTV ratios for the consumer portfolio subsequent to origination except as part of the charge-off process for real estate secured loans.

*Residential Mortgage Portfolio*

The Bancorp manages credit risk in the residential mortgage portfolio through conservative underwriting and documentation standards and geographic and product diversification. The Bancorp may also package and sell loans in the portfolio.

The Bancorp does not originate mortgage loans that permit customers to defer principal payments or make payments that are less than the accruing interest. The Bancorp originates both fixed and adjustable-rate residential mortgage loans. Resets of rates on ARMs are not expected to have a material impact on credit costs in the current interest rate environment, as \$841 million of adjustable-rate residential mortgage loans will have rate resets during the next twelve months. Of these resets, 66% are expected to experience an increase in rate, with an average increase of approximately one fifth of a percent.

Certain residential mortgage products have contractual features that may increase credit exposure to the Bancorp in the event of a decline in housing values. These types of mortgage products offered by the Bancorp include loans with high LTV ratios, multiple loans on the same collateral that when combined result in a LTV greater than 80% and interest-only loans. The Bancorp has deemed residential mortgage loans with greater than 80% LTV ratios and no mortgage insurance as loans that represent a higher level of risk.

The following table provides an analysis of the residential mortgage portfolio loans outstanding by LTV at origination as of:

**TABLE 38: Residential Mortgage Portfolio Loans by LTV at Origination**

|                                    | September 30, 2015 |                  | December 31, 2014 |                  |
|------------------------------------|--------------------|------------------|-------------------|------------------|
|                                    | Outstanding        | Weighted-Average | Outstanding       | Weighted-Average |
| (\$ in millions)                   |                    | LTV              |                   | LTV              |
| LTV ≤ 80%                          | \$ 10,075          | 65.5 %           | \$ 9,220          | 65.1 %           |
| LTV > 80%, with mortgage insurance | 1,269              | 93.4             | 1,206             | 93.8             |
| LTV > 80%, no mortgage insurance   | 2,048              | 96.2             | 1,963             | 96.2             |

|       |           |        |           |        |
|-------|-----------|--------|-----------|--------|
| Total | \$ 13,392 | 73.0 % | \$ 12,389 | 73.0 % |
|-------|-----------|--------|-----------|--------|

The following tables provide analysis of the residential mortgage portfolio loans outstanding with a greater than 80% LTV ratio and no mortgage insurance:

**TABLE 39: Residential Mortgage Portfolio Loans, LTV Greater than 80%, No Mortgage Insurance**

**As of September 30, 2015**  
**(\$ in millions)**

**Net Charge-offs for September 30, 2015**

| By state:        | Outstanding     | 90 Days<br>Past Due | Nonaccrual | Three Months<br>Ended | Nine Months<br>Ended |
|------------------|-----------------|---------------------|------------|-----------------------|----------------------|
| Ohio             | \$ 530          | 1                   | 4          | 1                     | 3                    |
| Illinois         | 348             |                     | 1          |                       | 1                    |
| Michigan         | 270             | 1                   | 1          | 1                     | 1                    |
| Florida          | 264             |                     | 5          |                       |                      |
| Indiana          | 139             |                     | 1          |                       |                      |
| North Carolina   | 110             |                     | 1          |                       |                      |
| Kentucky         | 81              | 1                   |            |                       |                      |
| All other states | 306             | 1                   | 1          |                       |                      |
| <b>Total</b>     | <b>\$ 2,048</b> | <b>4</b>            | <b>14</b>  | <b>2</b>              | <b>5</b>             |

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 40: Residential Mortgage Portfolio Loans, LTV Greater than 80%, No Mortgage Insurance**

As of September 30, 2014  
(\$ in millions)

Net Charge-offs for September 30, 2014

| By state:        | Outstanding     | 90 Days<br>Past Due | Nonaccrual | Three Months<br>Ended | Nine Months<br>Ended |
|------------------|-----------------|---------------------|------------|-----------------------|----------------------|
| Ohio             | \$ 603          | 2                   | 15         | 1                     | 3                    |
| Illinois         | 296             |                     | 5          |                       | 1                    |
| Michigan         | 327             | 1                   | 6          | 1                     | 3                    |
| Florida          | 272             | 1                   | 6          |                       | 1                    |
| Indiana          | 137             | 1                   | 3          |                       | 1                    |
| North Carolina   | 106             |                     | 1          |                       |                      |
| Kentucky         | 92              |                     | 1          |                       |                      |
| All other states | 344             | 1                   | 3          |                       | 1                    |
| <b>Total</b>     | <b>\$ 2,177</b> | <b>6</b>            | <b>40</b>  | <b>2</b>              | <b>10</b>            |

*Home Equity Portfolio*

The Bancorp's home equity portfolio is primarily comprised of home equity lines of credit. Beginning in the first quarter of 2013, the Bancorp's newly originated home equity lines of credit have a 10-year interest-only draw period followed by a 20-year amortization period. The home equity line of credit previously offered by the Bancorp was a revolving facility with a 20-year term, minimum payments of interest-only and a balloon payment of principal at maturity.

The ALLL provides coverage for probable and estimable losses in the home equity portfolio. The allowance attributable to the portion of the home equity portfolio that has not been restructured in a TDR is calculated on a pooled basis with senior lien and junior lien categories segmented in the determination of the probable credit losses in the home equity portfolio. The modeled loss factor for the home equity portfolio is based on the trailing twelve month historical loss rate for each category, as adjusted for certain prescriptive loss rate factors and certain qualitative adjustment factors to reflect risks associated with current conditions and trends. The prescriptive loss rate factors include adjustments for delinquency trends, LTV trends, refreshed FICO score trends and product mix. The qualitative factors include adjustments for credit administration and portfolio management, credit policy and underwriting and the national and local economy. The Bancorp considers home price index trends when determining the national and local economy qualitative factor.

The home equity portfolio is managed in two primary groups: loans outstanding with a combined LTV greater than 80% and those loans with a LTV 80% or less based upon appraisals at origination. The carrying value of the greater than 80% LTV home equity loans and 80% or less LTV home equity loans were \$2.7 billion and \$5.7 billion, respectively, as of September 30, 2015. Of the total \$8.4 billion of outstanding home equity loans:

85% reside within the Bancorp's Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois;

35% are in senior lien positions and 65% are in junior lien positions at September 30, 2015;

Over 81% of non-delinquent borrowers made at least one payment greater than the minimum payment during the three months ended September 30, 2015; and

The portfolio had an average refreshed FICO score of 741 at September 30, 2015 and 740 at December 31, 2014.

The Bancorp actively manages lines of credit and makes reductions in lending limits when it believes it is necessary based on FICO score deterioration and property devaluation. The Bancorp does not routinely obtain appraisals on performing loans to update LTV ratios after origination. However, the Bancorp monitors the local housing markets by reviewing various home price indices and incorporates the impact of the changing market conditions in its ongoing credit monitoring processes. For junior lien home equity loans which become 60 days or more past due, the Bancorp tracks the performance of the senior lien loans in which the Bancorp is the servicer and utilizes consumer credit bureau attributes to monitor the status of the senior lien loans that the Bancorp does not service. If the senior lien loan is found to be 120 days or more past due, the junior lien home equity loan is placed on nonaccrual status unless both loans are well-secured and in the process of collection. Additionally, if the junior lien home equity loan becomes 120 days or more past due and the senior lien loan is also 120 days or more past due, the junior lien home equity loan is assessed for charge-off. Refer to the Analysis of Nonperforming Assets section of MD&A for more information.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table provides an analysis of home equity portfolio loans outstanding disaggregated based upon refreshed FICO score as of:

**TABLE 41: Home Equity Portfolio Loans Outstanding by Refreshed FICO Score**

| (\$ in millions)     | September 30, 2015 |            | December 31, 2014 |            |
|----------------------|--------------------|------------|-------------------|------------|
|                      | Outstanding        | % of Total | Outstanding       | % of Total |
| <b>Senior liens:</b> |                    |            |                   |            |
| FICO < 620           | \$ 163             | 2 %        | \$ 178            | 2 %        |
| FICO 621-719         | 573                | 7          | 613               | 7          |
| FICO > 720           | 2,217              | 26         | 2,257             | 25         |
| Total senior liens   | 2,953              | 35         | 3,048             | 34         |
| <b>Junior liens:</b> |                    |            |                   |            |
| FICO < 620           | 406                | 5          | 471               | 6          |
| FICO 621-719         | 1,439              | 17         | 1,542             | 17         |
| FICO > 720           | 3,629              | 43         | 3,825             | 43         |
| Total junior liens   | 5,474              | 65         | 5,838             | 66         |
| Total                | \$ 8,427           | 100 %      | \$ 8,886          | 100 %      |

The Bancorp believes that home equity portfolio loans with a greater than 80% combined LTV ratio present a higher level of risk. The following table provides an analysis of the home equity portfolio loans outstanding in a senior and junior lien position by LTV at origination as of:

**TABLE 42: Home Equity Portfolio Loans Outstanding by LTV at Origination**

| (\$ in millions)     | September 30, 2015 |                      | December 31, 2014 |                      |
|----------------------|--------------------|----------------------|-------------------|----------------------|
|                      | Outstanding        | Weighted-Average LTV | Outstanding       | Weighted-Average LTV |
| <b>Senior liens:</b> |                    |                      |                   |                      |
| LTV ≤ 80%            | \$ 2,570           | 55.1 %               | \$ 2,635          | 55.2 %               |
| LTV > 80%            | 383                | 89.1                 | 413               | 89.1                 |
| Total senior liens   | 2,953              | 59.7                 | 3,048             | 60.0                 |

|                      |          |        |          |        |
|----------------------|----------|--------|----------|--------|
| <b>Junior liens:</b> |          |        |          |        |
| LTV ≤ 80%            | 3,131    | 67.6   | 3,281    | 67.4   |
| LTV > 80%            | 2,343    | 90.9   | 2,557    | 91.1   |
| Total junior liens   | 5,474    | 79.3   | 5,838    | 79.6   |
| Total                | \$ 8,427 | 71.9 % | \$ 8,886 | 72.4 % |

The following tables provide analysis of home equity portfolio loans by state with combined LTV greater than 80%:

**TABLE 43: Home Equity Portfolio Loans Outstanding with a LTV Greater than 80%**

| As of September 30, 2015<br>(\$ in millions) |             |          | Net Charge-offs for September 30, 2015 |            |                       |                      |
|--|-------------|----------|--|------------|-----------------------|----------------------|
| By state:                                    | Outstanding | Exposure | 90 Days<br>Past Due                    | Nonaccrual | Three Months<br>Ended | Nine Months<br>Ended |
| Ohio   | \$ 1,089    | 1,819    |  | 9          | 1                     | 4                    |
| Michigan                                     | 544         | 802      |  | 7          | 1                     | 4                    |
| Illinois                                     | 312         | 467      |  | 4          | 1                     | 3                    |
| Indiana                                      | 228         | 364      |  | 3          | 1                     | 2                    |
| Kentucky                                     | 216         | 355      |  | 2          |                       | 1                    |
| Florida                                      | 97          | 132      |  | 3          |                       | 1                    |
| All other states                             | 240         | 334      |  | 4          | 1                     | 2                    |
| Total  | \$ 2,726    | 4,273    |  | 32         | 5                     | 17                   |

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 44: Home Equity Portfolio Loans Outstanding with a LTV Greater than 80%**

| As of September 30, 2014<br>(\$ in millions) |             |          | Net Charge-offs for September 30, 2014 |            |                       |                      |
|--|-------------|----------|--|------------|-----------------------|----------------------|
| By state:                                    | Outstanding | Exposure | 90<br>Days<br>Past Due                 | Nonaccrual | Three Months<br>Ended | Nine Months<br>Ended |
| Ohio   | \$ 1,135    | 1,842    |  | 8          | 2                     | 7                    |
| Michigan                                     | 635         | 909      |  | 8          | 2                     | 7                    |
| Illinois                                     | 354         | 517      |  | 6          | 2                     | 5                    |
| Indiana                                      | 268         | 416      |  | 3          | 1                     | 2                    |
| Kentucky                                     | 254         | 401      |  | 2          | 1                     | 2                    |
| Florida                                      | 110         | 147      |  | 2          |                       | 2                    |
| All other states                             | 284         | 387      |  | 5          | 1                     | 4                    |
| Total  | \$ 3,040    | 4,619    |  | 34         | 9                     | 29                   |

*Automobile Portfolio*

The automobile portfolio is characterized by direct and indirect lending products to consumers. As of September 30, 2015, 50% of the automobile loan portfolio is comprised of loans collateralized by new automobiles. It is a common practice to advance on automobile loans an amount in excess of the automobile value due to the inclusion of taxes, title and other fees paid at closing. The Bancorp monitors its exposure to these higher risk loans.

The following table provides an analysis of automobile portfolio loans outstanding by LTV at origination as of:

**TABLE 45: Automobile Portfolio Loans Outstanding by LTV at Origination**

| (\$ in millions) | September 30, 2015 |                      | December 31, 2014 |                      |
|------------------|--------------------|----------------------|-------------------|----------------------|
|                  | Outstanding        | Weighted-Average LTV | Outstanding       | Weighted-Average LTV |
| LTV ≤ 100%       | \$ 8,009           | 81.7 %               | \$ 8,212          | 81.6 %               |
| LTV > 100%       | 3,817              | 111.2                | 3,825             | 111.0                |
| Total            | \$ 11,826          | 91.6 %               | \$ 12,037         | 91.3 %               |

The following table provides an analysis of the Bancorp's automobile portfolio loans with a LTV at origination greater than 100%:

**TABLE 46: Automobile Portfolio Loans Outstanding with a LTV Greater than 100%**

| As of (\$ in millions)    | Net Charge-offs for |                               |            |                    |                   |
|---------------------------|---------------------|-------------------------------|------------|--------------------|-------------------|
|                           | Outstanding         | 90 Days Past Due and Accruing | Nonaccrual | Three Months Ended | Nine Months Ended |
| <b>September 30, 2015</b> | <b>\$ 3,817</b>     | <b>5</b>                      | <b>1</b>   | <b>5</b>           | <b>14</b>         |
| September 30, 2014        | 3,792               | 4                             | 1          | 4                  | 12                |

**European Exposure**

The Bancorp has no direct sovereign exposure to any European nation as of September 30, 2015. In providing services to our customers, the Bancorp routinely enters into financial transactions with foreign domiciled and U.S. subsidiaries of foreign businesses as well as foreign financial institutions. These financial transactions are in the form of loans, loan commitments, letters of credit, derivatives and securities. The Bancorp's risk appetite for foreign country exposure is managed by having established country exposure limits. The Bancorp's total exposure to European domiciled or owned businesses and European financial institutions was \$3.7 billion and funded exposure was \$2.0 billion as of September 30, 2015. Additionally, the Bancorp was within its established country exposure limits for all European countries.

The following table provides detail about the Bancorp's exposure to all European domiciled and owned businesses and financial institutions as of September 30, 2015:

**TABLE 47: European Exposure**

| (\$ in millions)                 | Sovereigns     |                 | Financial Institutions |                 | Non-Financial Institutions |                 | Total                         |                 |
|----------------------------------|----------------|-----------------|------------------------|-----------------|----------------------------|-----------------|-------------------------------|-----------------|
|                                  | Total Exposure | Funded Exposure | Total Exposure         | Funded Exposure | Total Exposure             | Funded Exposure | Total Exposure <sup>(a)</sup> | Funded Exposure |
| Peripheral Europe <sup>(b)</sup> | \$             |                 |                        |                 | 344                        | 240             | 344                           | 240             |
| Other Eurozone <sup>(c)</sup>    |                |                 | 69                     | 64              | 2,218                      | 1,132           | 2,287                         | 1,196           |
| Total Eurozone                   | \$             |                 | 69                     | 64              | 2,562                      | 1,372           | 2,631                         | 1,436           |
| Other Europe <sup>(d)</sup>      |                |                 | 44                     | 44              | 1,044                      | 530             | 1,088                         | 574             |
| Total Europe                     | \$             |                 | 113                    | 108             | 3,606                      | 1,902           | 3,719                         | 2,010           |

(a) Total exposure includes funded exposure and unfunded commitments, reported net of collateral.

(b) Peripheral Europe includes Greece, Ireland, Italy, Portugal and Spain.

(c) Eurozone includes countries participating in the European common currency (Euro).

(d) Other Europe includes European countries not part of the Eurozone (primarily the United Kingdom and Switzerland).

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**Analysis of Nonperforming Assets**

Nonperforming assets include nonaccrual loans and leases for which ultimate collectability of the full amount of the principal and/or interest is uncertain; restructured commercial and credit card loans which have not yet met the requirements to be classified as a performing asset; restructured consumer loans which are 90 days past due based on the restructured terms unless the loan is both well-secured and in the process of collection; and certain other assets, including OREO and other repossessed property. A summary of nonperforming assets is included in Table 48. Refer to the nonaccrual section of Note 1 in the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014 for additional delinquency and nonperforming asset information.

Nonperforming assets, including loans held for sale, were \$608 million at September 30, 2015 compared to \$783 million at December 31, 2014. At September 30, 2015, \$2 million of nonaccrual loans were held for sale, compared to \$39 million at December 31, 2014.

Nonperforming assets as a percent of total loans, leases and other assets, including OREO and nonaccrual loans held for sale as of September 30, 2015 were 0.64%, compared to 0.86% as of December 31, 2014. Excluding nonaccrual loans held for sale, nonperforming assets as a percent of portfolio loans, leases and other assets, including OREO, were 0.65% as of September 30, 2015 compared to 0.82% as of December 31, 2014. The composition of nonaccrual loans and leases continues to be concentrated in real estate as 54% of nonaccrual loans and leases were secured by real estate as of September 30, 2015 compared with 50% as of December 31, 2014.

Commercial nonperforming loans and leases were \$287 million at September 30, 2015, a decrease of \$104 million from December 31, 2014 as charge-offs, loan paydowns/payoffs, loan transfers to OREO and loans sold outpaced new nonaccruals. Excluding commercial nonperforming loans and leases held for sale, commercial nonperforming loans and leases at September 30, 2015 decreased \$81 million compared to December 31, 2014.

Consumer nonperforming loans and leases were \$173 million at September 30, 2015, a decrease of \$54 million from December 31, 2014. The decrease was primarily due to loan paydowns/payoffs, charge-offs, and transfers to performing and OREO which outpaced new nonaccrual loans, as well as the sale of \$10 million of held for sale residential mortgage loans classified as TDRs during the first quarter of 2015. Excluding consumer nonperforming loans and leases held for sale, consumer nonperforming loans and leases at September 30, 2015 decreased \$40 million compared to December 31, 2014. Geographical market conditions continue to be a large driver of nonaccrual activity as Florida properties represent approximately 11% of residential mortgage balances, but represent 31% of nonaccrual loans at September 30, 2015. Refer to Table 49 for a rollforward of the nonperforming loans and leases.

OREO and other repossessed property was \$148 million at September 30, 2015, compared to \$165 million at December 31, 2014. The Bancorp recognized \$3 million in losses on the sale or write-down of OREO properties for the both the three months ended September 30, 2015 and 2014 and \$16 million and \$22 million in losses for the nine months ended September 30, 2015 and 2014, respectively. The decrease from the nine months ended September 30, 2014 was primarily due to a modest improvement in general economic conditions.

For the three and nine months ended September 30, 2015, approximately \$8 million and \$26 million, respectively, of interest income would have been recognized if the nonaccrual and renegotiated loans and leases on nonaccrual status had been current in accordance with their original terms. For the three and nine months ended September 30, 2014 approximately \$13 million and \$40 million, respectively, of interest income would have been recognized. Although these values help demonstrate the costs of carrying nonaccrual credits, the Bancorp does not expect to recover the full amount of interest as nonaccrual loans and leases are generally carried below their principal balance.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 48: Summary of Nonperforming Assets and Delinquent Loans**

| As of (\$ in millions)   | September 30, 2015 | December 31, 2014 |
|--|--------------------|-------------------|
| Nonaccrual portfolio loans and leases:   |                    |                   |
| Commercial and industrial loans  | \$ 47              | 86                |
| Commercial mortgage loans  | 60                 | 64                |
| Commercial leases  | 2                  | 3                 |
| Residential mortgage loans   | 31                 | 44                |
| Home equity  | 65                 | 72                |
| Restructured portfolio loans and leases:   |                    |                   |
| Commercial and industrial loans  | 120                | 142               |
| Commercial mortgage loans <sup>(d)</sup>   | 50                 | 71                |
| Commercial construction loans  | 6                  |                   |
| Commercial leases  | 1                  | 1                 |
| Residential mortgage loans   | 24                 | 33                |
| Home equity  | 17                 | 21                |
| Automobile loans   | 2                  | 1                 |
| Credit card  | 33                 | 41                |
| Total nonperforming portfolio loans and leases <sup>(c)</sup>  | \$ 458             | 579               |
| OREO and other repossessed property <sup>(e)</sup>   | 148                | 165               |
| Total nonperforming portfolio assets   | \$ 606             | 744               |
| Nonaccrual loans held for sale   | 1                  | 39                |
| Restructured loans - nonaccrual held for sale  | 1                  |                   |
| Total nonperforming assets including loans held for sale   | \$ 608             | 783               |
| Loans and leases 90 days past due and accruing   |                    |                   |
| Commercial and industrial loans  | \$ 3               |                   |
| Commercial mortgage loans  | 2                  |                   |
| Residential mortgage loans <sup>(b)</sup>  | 40                 | 56                |
| Automobile loans   | 8                  | 8                 |
| Credit card  | 17                 | 23                |
| Total loans and leases 90 days past due and accruing   | \$ 70              | 87                |
| Nonperforming assets as a percent of portfolio loans, leases and other assets, including OREO <sup>(a)</sup> | 0.65 %             | 0.82              |
| ALLL as a percent of nonperforming assets <sup>(a)</sup>   | 208                | 178               |

- (a) *Excludes nonaccrual loans held for sale.*
- (b) *Information for all periods presented excludes loans whose repayments are insured by the FHA or guaranteed by the VA. These loans were \$337 as of **September 30, 2015** and \$373 as of December 31, 2014. The Bancorp recognized \$2 and \$6 on these insured or guaranteed loans for the three and nine months ended **September 30, 2015**, respectively, and \$2 and \$9 for the three and nine months ended September 30, 2014, respectively.*
- (c) *Includes \$8 and \$9 of nonaccrual government insured commercial loans whose repayments are insured by the SBA at **September 30, 2015** and December 31, 2014, respectively, and \$4 of restructured nonaccrual government insured commercial loans at both **September 30, 2015** and December 31, 2014.*
- (d) *Excludes \$21 of restructured nonaccrual loans at both **September 30, 2015** and December 31, 2014, associated with a consolidated VIE in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party.*
- (e) *Excludes \$18 and \$71 of OREO related to government insured loans at **September 30, 2015** and December 31, 2014, respectively. The Bancorp has historically excluded government guaranteed loans classified in OREO from its nonperforming asset disclosures. Upon the prospective adoption on January 1, 2015 of ASU 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure*, government guaranteed loans meeting certain criteria will be reclassified to other receivables rather than OREO upon foreclosure. As of **September 30, 2015**, the Bancorp had \$40 of government guaranteed loans classified as other receivables. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further information on the adoption of this amended guidance.*

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table provides a rollforward of portfolio nonperforming loans and leases, by portfolio segment:

**TABLE 49: Rollforward of Portfolio Nonperforming Loans and Leases**

| <b>For the nine months ended September 30, 2015 (\$ in millions)</b> | <b>Residential</b> |                 |                 | <b>Total</b> |
|--|--------------------|-----------------|-----------------|--------------|
|  | <b>Commercial</b>  | <b>Mortgage</b> | <b>Consumer</b> |              |
| Beginning balance  | \$ 367             | 77              | 135             | 579          |
| Transfers to nonperforming   | 349                | 49              | 115             | 513          |
| Transfers to performing  | (6)                | (27)            | (52)            | (85)         |
| Transfers from held for sale   |                    | 5               |                 | 5            |
| Transfers to held for sale   |                    |                 | (1)             | (1)          |
| Loans sold from portfolio  | (9)                |                 |                 | (9)          |
| Loan paydowns/payoffs  | (152)              | (12)            | (21)            | (185)        |
| Transfers to OREO  | (19)               | (25)            | (13)            | (57)         |
| Charge-offs  | (251)              | (12)            | (46)            | (309)        |
| Draws/other extensions of credit                                     | 7                  |                 |                 | 7            |
| Ending balance   | \$ 286             | 55              | 117             | 458          |

For the nine months ended September 30, 2014 (\$ in millions)

|                                  |        |      |      |       |
|----------------------------------|--------|------|------|-------|
| Beginning balance                | \$ 458 | 166  | 127  | 751   |
| Transfers to nonperforming       | 421    | 105  | 163  | 689   |
| Transfers to performing          | (70)   | (61) | (73) | (204) |
| Transfers to held for sale       | (4)    |      |      | (4)   |
| Loans sold from portfolio        | (38)   |      |      | (38)  |
| Loan paydowns/payoffs            | (136)  | (41) | (4)  | (181) |
| Transfers to OREO                | (34)   | (53) | (16) | (103) |
| Charge-offs                      | (217)  | (4)  | (74) | (295) |
| Draws/other extensions of credit | 5      |      |      | 5     |
| Ending balance                   | \$ 385 | 112  | 123  | 620   |

**Troubled Debt Restructurings**

If a borrower is experiencing financial difficulty, the Bancorp may consider, in certain circumstances, modifying the terms of their loan to maximize collection of amounts due. Typically, these modifications reduce the loan interest rate, extend the loan term, reduce the accrued interest or in limited circumstances, reduce the principal balance of the loan. These modifications are classified as TDRs.

At the time of modification, the Bancorp maintains certain consumer loan TDRs (including residential mortgage loans, home equity loans, and other consumer loans) on accrual status, provided there is reasonable assurance of repayment and performance according to the modified terms based upon a current, well-documented credit evaluation. Commercial loans modified as part of a TDR are maintained on accrual status provided there is a sustained payment history of six months or greater prior to the modification in accordance with the modified terms and all remaining contractual payments under the modified terms are reasonably assured of collection. TDRs of commercial loans and credit card loans that do not have a sustained payment history of six months or greater in accordance with the modified terms remain on nonaccrual status until a six-month payment history is sustained.

Consumer restructured loans on accrual status totaled \$973 million and \$905 million at September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015, the percent of restructured residential mortgage loans, home equity loans and credit card loans that are past due 30 days or more from their modified terms were 30%, 10% and 28%, respectively.

The following tables summarize TDRs by loan type and delinquency status:

**TABLE 50: Performing and Nonperforming TDRs**

| As of September 30, 2015 (\$ in millions) | Current  | Performing<br>30-89 Days |                          | Nonaccrual | Total |
|---|----------|--------------------------|--------------------------|------------|-------|
|   |          | Past Due                 | 90 Days or More Past Due |            |       |
| Commercial loans <sup>(b)</sup>           | \$ 565   | 5                        | 1                        | 177        | 748   |
| Residential mortgage loans <sup>(a)</sup> | 431      | 51                       | 107                      | 24         | 613   |
| Home equity                               | 318      | 18                       |                          | 17         | 353   |
| Credit card <sup>(c)</sup>                | 25       | 4                        |                          | 33         | 62    |
| Automobile                                | 18       | 1                        |                          | 2          | 21    |
| Total                                     | \$ 1,357 | 79                       | 108                      | 253        | 1,797 |

(a) Information includes advances made pursuant to servicing agreements for GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the VA. As of **September 30, 2015**, these advances represented **\$193** of current loans, **\$40** of 30-89 days past due loans and **\$99** of 90 days or more past due loans.

(b) As of **September 30, 2015**, excludes **\$7** of restructured accruing loans and **\$21** of restructured nonaccrual loans associated with a consolidated VIE in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party.

(c) Excludes restructured nonaccrual loans held for sale.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 51: Performing and Nonperforming TDRs**

| As of December 31, 2014 (\$ in millions)     | Current  | Performing                |                                | Nonaccrual | Total |
|--|----------|---------------------------|--------------------------------|------------|-------|
|  |          | 30-89 Days<br>Past<br>Due | 90 Days<br>or<br>More Past Due |            |       |
| Commercial loans <sup>(b)(c)</sup>           | \$ 867   | 2                         |                                | 214        | 1,083 |
| Residential mortgage loans <sup>(a)(c)</sup> | 312      | 54                        | 119                            | 33         | 518   |
| Home equity                                  | 337      | 23                        |                                | 21         | 381   |
| Credit card                                  | 31       | 6                         |                                | 41         | 78    |
| Automobile loans                             | 22       | 1                         |                                | 1          | 24    |
| Total  | \$ 1,569 | 86                        | 119                            | 310        | 2,084 |

(a) Information includes advances made pursuant to servicing agreements for GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the VA. As of December 31, 2014, these advances represented \$165 of current loans, \$42 of 30-89 days past due loans and \$102 of 90 days or more past due loans.

(b) As of December 31, 2014, excludes \$7 of restructured accruing loans and \$21 of restructured nonaccrual loans associated with a consolidated variable interest entity in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party.

(c) Excludes restructured nonaccrual loans held for sale.

**Analysis of Net Loan Charge-offs**

Net charge-offs were 80 bps and 50 bps of average portfolio loans and leases for the three months ended September 30, 2015 and 2014, respectively, and were 53 bps and 57 bps for the nine months ended September 30, 2015 and 2014, respectively. Table 52 provides a summary of credit loss experience and net charge-offs as a percent of average portfolio loans and leases outstanding by loan category.

The ratio of commercial loan and lease net charge-offs to average portfolio commercial loans and leases increased to 99 bps and 54 bps during the three and nine months ended September 30, 2015, respectively, compared to 40 bps and 51 bps during the three and nine months ended September 30, 2014, respectively. The increase for both periods included a charge-off associated with the restructuring of a student loan backed commercial credit originated in 2007. The nine months ended September 30, 2014 included net charge-offs related to certain impaired commercial and industrial loans in the first and third quarters of 2014. Net charge-offs related to nonowner-occupied commercial real estate were \$10 million and \$16 million for the three and nine months ended September 30, 2015, respectively. There were no net charge-offs related to nonowner-occupied commercial real estate for the three months ended September 30, 2014 and \$7 million for the nine months ended September 30, 2014. Net charge-offs related to nonowner-occupied commercial real estate are recorded in the commercial mortgage loans and commercial

construction loans captions in Table 52. Net charge-offs on these loans represented 7% of total commercial loan and lease net charge-offs for both the three and nine months ended September 30, 2015.

The ratio of consumer loan and lease net charge-offs to average portfolio consumer loans and leases decreased to 51 bps and 52 bps during the three and nine months ended September 30, 2015, respectively, compared to 66 bps for both the three and nine months ended September 30, 2014. Residential mortgage loan net charge-offs, which typically involve partial charge-offs based upon appraised values of underlying collateral, decreased \$6 million and \$17 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year driven by improvements in delinquencies and loss severities. The Bancorp expects the composition of the residential mortgage portfolio to improve as it continues to retain high quality residential mortgage loans.

Home equity net charge-offs decreased \$5 million and \$18 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to improvements in loss severities. In addition, management actively manages lines of credit and makes reductions in lending limits when it believes it is necessary based on FICO score deterioration and property devaluation.

Automobile loans, credit card and other consumer loans and leases net charge-offs remained relatively flat compared to the same periods in the prior year. The Bancorp utilizes a risk-adjusted pricing methodology to ensure adequate compensation is received for those products that have higher credit costs.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 52: Summary of Credit Loss Experience**

| (\$ in millions)   | For the three months ended   |       | For the nine months ended    |       |
|--|------------------------------|-------|------------------------------|-------|
|  | September 30,<br><b>2015</b> | 2014  | September 30,<br><b>2015</b> | 2014  |
| <b>Losses charged-off:</b>                               |                              |       |                              |       |
| Commercial and industrial loans                          | <b>\$ (133)</b>              | (62)  | <b>(216)</b>                 | (198) |
| Commercial mortgage loans                                | <b>(13)</b>                  | (10)  | <b>(32)</b>                  | (25)  |
| Commercial construction loans                            | <b>(3)</b>                   |       | <b>(3)</b>                   | (13)  |
| Residential mortgage loans                               | <b>(6)</b>                   | (12)  | <b>(23)</b>                  | (41)  |
| Home equity  | <b>(13)</b>                  | (18)  | <b>(42)</b>                  | (61)  |
| Automobile loans   | <b>(11)</b>                  | (11)  | <b>(33)</b>                  | (33)  |
| Credit card  | <b>(24)</b>                  | (26)  | <b>(72)</b>                  | (72)  |
| Other consumer loans and leases                          | <b>(6)</b>                   | (7)   | <b>(16)</b>                  | (21)  |
| <b>Total losses charged-off</b>                          | <b>\$ (209)</b>              | (146) | <b>(437)</b>                 | (464) |
| <b>Recoveries of losses previously charged-off:</b>      |                              |       |                              |       |
| Commercial and industrial loans                          | <b>5</b>                     | 12    | <b>16</b>                    | 21    |
| Commercial mortgage loans                                | <b>2</b>                     | 5     | <b>8</b>                     | 9     |
| Commercial construction loans                            |                              |       |                              | 1     |
| Residential mortgage loans                               | <b>3</b>                     | 3     | <b>9</b>                     | 10    |
| Home equity  | <b>4</b>                     | 4     | <b>11</b>                    | 12    |
| Automobile loans   | <b>4</b>                     | 4     | <b>14</b>                    | 13    |
| Credit card  | <b>3</b>                     | 3     | <b>9</b>                     | 10    |
| Other consumer loans and leases                          |                              |       | <b>4</b>                     | 4     |
| <b>Total recoveries of losses previously charged-off</b> | <b>\$ 21</b>                 | 31    | <b>71</b>                    | 80    |
| <b>Net losses charged-off:</b>                           |                              |       |                              |       |
| Commercial and industrial loans                          | <b>(128)</b>                 | (50)  | <b>(200)</b>                 | (177) |
| Commercial mortgage loans                                | <b>(11)</b>                  | (5)   | <b>(24)</b>                  | (16)  |
| Commercial construction loans                            | <b>(3)</b>                   |       | <b>(3)</b>                   | (12)  |
| Residential mortgage loans                               | <b>(3)</b>                   | (9)   | <b>(14)</b>                  | (31)  |
| Home equity  | <b>(9)</b>                   | (14)  | <b>(31)</b>                  | (49)  |
| Automobile loans   | <b>(7)</b>                   | (7)   | <b>(19)</b>                  | (20)  |
| Credit card  | <b>(21)</b>                  | (23)  | <b>(63)</b>                  | (62)  |
| Other consumer loans and leases                          | <b>(6)</b>                   | (7)   | <b>(12)</b>                  | (17)  |
| <b>Total net losses charged-off</b>                      | <b>\$ (188)</b>              | (115) | <b>(366)</b>                 | (384) |

|   |               |        |             |      |
|---|---------------|--------|-------------|------|
| Net charge-offs as a percent of average portfolio loans and leases:     |               |        |             |      |
| Commercial and industrial loans   | <b>1.17 %</b> | 0.48   | <b>0.63</b> | 0.58 |
| Commercial mortgage loans   | <b>0.66</b>   | 0.24   | <b>0.44</b> | 0.28 |
| Commercial construction loans   | <b>0.43</b>   | (0.11) | <b>0.15</b> | 1.17 |
| <b>Total commercial loans</b>   | <b>0.99 %</b> | 0.40   | <b>0.54</b> | 0.51 |
| Residential mortgage loans  | <b>0.10</b>   | 0.28   | <b>0.15</b> | 0.34 |
| Home equity   | <b>0.42</b>   | 0.63   | <b>0.48</b> | 0.71 |
| Automobile loans  | <b>0.23</b>   | 0.24   | <b>0.22</b> | 0.22 |
| Credit card   | <b>3.77</b>   | 3.89   | <b>3.66</b> | 3.67 |
| Other consumer loans and leases   | <b>3.52</b>   | 8.13   | <b>3.33</b> | 6.26 |
| <b>Total consumer loans and leases</b>                                  | <b>0.51 %</b> | 0.66   | <b>0.52</b> | 0.66 |
| Total net losses charged-off as a percent of portfolio loans and leases |               |        |             |      |
|   | <b>0.80 %</b> | 0.50   | <b>0.53</b> | 0.57 |

### Allowance for Credit Losses

The allowance for credit losses is comprised of the ALLL and the reserve for unfunded commitments. The ALLL provides coverage for probable and estimable losses in the loan and lease portfolio. The Bancorp evaluates the ALLL each quarter to determine its adequacy to cover inherent losses. Several factors are taken into consideration in the determination of the overall ALLL, including an unallocated component. These factors include, but are not limited to, the overall risk profile of the loan and lease portfolios, net charge-off experience, the extent of impaired loans and leases, the level of nonaccrual loans and leases, the level of 90 days past due loans and leases and the overall level of the ALLL as a percent of portfolio loans and leases. The Bancorp also considers overall asset quality trends, credit administration and portfolio management practices, risk identification practices, credit policy and underwriting practices, overall portfolio growth, portfolio concentrations and current national and local economic conditions that might impact the portfolio. More information on the ALLL can be found in Management's Discussion and Analysis Critical Accounting Policies in the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014.

During the nine months ended September 30, 2015, the Bancorp did not substantively change any material aspect of its overall approach in the determination of the ALLL and there have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. In addition to the ALLL, the Bancorp maintains a reserve for unfunded commitments recorded in other liabilities in the Condensed Consolidated Balance Sheets. The methodology used to determine the adequacy of this reserve is similar to the Bancorp's methodology for determining the ALLL. The provision for unfunded commitments is included in other noninterest expense in the Condensed Consolidated Statements of Income.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The ALLL attributable to the portion of the residential mortgage and consumer loan and lease portfolio that has not been restructured is determined on a pooled basis with the segmentation based on the similarity of credit risk characteristics. Loss factors for real estate backed consumer loans are developed for each pool based on the trailing twelve month historical loss rate, as adjusted for certain prescriptive loss rate factors and certain qualitative adjustment factors. The prescriptive loss rate factors and qualitative adjustments are designed to reflect risks associated with current conditions and trends which are not believed to be fully reflected in the trailing twelve month historical loss rate. For real estate backed consumer loans, the prescriptive loss rate factors include adjustments for delinquency trends, LTV trends, refreshed FICO score trends and product mix, and the qualitative factors include adjustments for credit administration and portfolio management practices, credit policy and underwriting practices and the national and local economy. The Bancorp considers home price index trends in its footprint when determining the national and local economy qualitative factor. The Bancorp also considers the volatility of collateral valuation trends when determining the unallocated component of the ALLL.

The Bancorp's determination of the ALLL for commercial loans is sensitive to the risk grades it assigns to these loans. In the event that 10% of commercial loans in each risk category would experience a downgrade of one risk category, the allowance for commercial loans would increase by approximately \$144 million at September 30, 2015. In addition, the Bancorp's determination of the ALLL for residential mortgage and consumer loans is sensitive to changes in estimated loss rates. In the event that estimated loss rates would increase by 10%, the ALLL for residential mortgage and consumer loans would increase by approximately \$32 million at September 30, 2015. As several qualitative and quantitative factors are considered in determining the ALLL, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the ALLL. They are intended to provide insights into the impact of adverse changes to risk grades and estimated loss rates and do not imply any expectation of future deterioration in the risk ratings or loss rates. Given current processes employed by the Bancorp, management believes the risk grades and estimated loss rates currently assigned are appropriate.

**TABLE 53: Changes in Allowance for Credit Losses**

| (\$ in millions)                            | For the three months ended |                       | For the nine months ended |                       |
|---|----------------------------|-----------------------|---------------------------|-----------------------|
|   | September 30,<br>2015      | September 30,<br>2014 | September 30,<br>2015     | September 30,<br>2014 |
| <b>ALLL:</b>                                |                            |                       |                           |                       |
| Balance, beginning of period                | \$ 1,293                   | 1,458                 | 1,322                     | 1,582                 |
| Losses charged-off                          | (209)                      | (146)                 | (437)                     | (464)                 |
| Recoveries of losses previously charged-off | 21                         | 31                    | 71                        | 80                    |
| Provision for loan and lease losses         | 156                        | 71                    | 305                       | 216                   |
| Balance, end of period                      | \$ 1,261                   | 1,414                 | 1,261                     | 1,414                 |
| <b>Reserve for unfunded commitments:</b>    |                            |                       |                           |                       |
| Balance, beginning of period                | \$ 132                     | 142                   | 135                       | 162                   |

|   |        |     |      |
|---|--------|-----|------|
| Benefit from (provision for) unfunded commitments | 2      | (8) | (28) |
| Charge-offs                                       |        |     | (1)  |
| Balance, end of period                            | \$ 134 | 134 | 134  |

Certain inherent but unconfirmed losses are probable within the loan and lease portfolio. The Bancorp's current methodology for determining the level of losses is based on historical loss rates, current credit grades, specific allocation on impaired commercial credits above specified thresholds and restructured loans and other qualitative adjustments. Due to the heavy reliance on realized historical losses and the credit grade rating process, the model-derived estimate of ALLL tends to slightly lag behind the deterioration in the portfolio in a stable or deteriorating credit environment, and tends not to be as responsive when improved conditions have presented themselves. Given these model limitations, the qualitative adjustment factors may be incremental or decremental to the quantitative model results.

An unallocated component of the ALLL is maintained to recognize the imprecision in estimating and measuring loss. The unallocated allowance as a percent of total portfolio loans and leases was 0.12% at both September 30, 2015 and December 31, 2014. The unallocated allowance was 9% and 8% of the total allowance at September 30, 2015 and December 31, 2014, respectively.

As shown in Table 54, the ALLL as a percent of portfolio loans and leases was 1.35% at September 30, 2015 compared to 1.47% at December 31, 2014. The ALLL was \$1.3 billion at both September 30, 2015 and December 31, 2014.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 54: Attribution of Allowance for Loan and Lease Losses to Portfolio Loans and Leases**

| As of (\$ in millions)  | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
| <b>Attributed ALLL:</b>   |                    |                   |
| Commercial and industrial loans   | \$ 633             | 673               |
| Commercial mortgage loans   | 125                | 140               |
| Commercial construction loans   | 25                 | 17                |
| Commercial leases   | 45                 | 45                |
| Residential mortgage loans  | 98                 | 104               |
| Home equity   | 70                 | 87                |
| Automobile loans  | 41                 | 33                |
| Credit card   | 96                 | 104               |
| Other consumer loans and leases   | 14                 | 13                |
| Unallocated   | 114                | 106               |
| <b>Total attributed ALLL</b>  | <b>\$ 1,261</b>    | <b>1,322</b>      |
| <b>Portfolio loans and leases:</b>  |                    |                   |
| Commercial and industrial loans   | \$ 42,948          | 40,765            |
| Commercial mortgage loans   | 7,061              | 7,399             |
| Commercial construction loans   | 3,101              | 2,069             |
| Commercial leases   | 3,898              | 3,720             |
| Residential mortgage loans  | 13,392             | 12,389            |
| Home equity   | 8,427              | 8,886             |
| Automobile loans  | 11,826             | 12,037            |
| Credit card   | 2,229              | 2,401             |
| Other consumer loans and leases   | 692                | 418               |
| <b>Total portfolio loans and leases</b>                                       | <b>\$ 93,574</b>   | <b>90,084</b>     |
| <b>Attributed ALLL as a percent of respective portfolio loans and leases:</b> |                    |                   |
| Commercial and industrial loans   | 1.47 %             | 1.65              |
| Commercial mortgage loans   | 1.77               | 1.89              |
| Commercial construction loans   | 0.81               | 0.82              |
| Commercial leases   | 1.15               | 1.21              |
| Residential mortgage loans  | 0.73               | 0.84              |
| Home equity   | 0.83               | 0.98              |
| Automobile loans  | 0.35               | 0.27              |
| Credit card   | 4.31               | 4.33              |

|  |               |      |
|--|---------------|------|
| Other consumer loans and leases                                  | <b>2.02</b>   | 3.11 |
| Unallocated (as a percent of total portfolio loans and leases)   | <b>0.12</b>   | 0.12 |
| Attributed ALLL as a percent of total portfolio loans and leases | <b>1.35 %</b> | 1.47 |

## MARKET RISK MANAGEMENT

Market risk arises from the potential for market fluctuations in interest rates, foreign exchange rates and equity prices that may result in potential reductions in net income. Interest rate risk, a component of market risk, is the exposure to adverse changes in net interest income or financial position due to changes in interest rates. Management considers interest rate risk a prominent market risk in terms of its potential impact on earnings. Interest rate risk can occur for any one or more of the following reasons:

Assets and liabilities may mature or reprice at different times;

Short-term and long-term market interest rates may change by different amounts; or

The expected maturity of various assets or liabilities may shorten or lengthen as interest rates change. In addition to the direct impact of interest rate changes on net interest income, interest rates can indirectly impact earnings through their effect on loan demand, credit losses, mortgage originations, the value of servicing rights and other sources of the Bancorp's earnings. Stability of the Bancorp's net income is largely dependent upon the effective management of interest rate risk. Management continually reviews the Bancorp's balance sheet composition and earnings flows and models the interest rate risk, and possible actions to reduce this risk, given numerous possible future interest rate scenarios.

### **Interest Rate Risk Management Oversight**

The Bancorp ALCO, which includes senior management representatives and is accountable to the ERM Committee, monitors and manages interest rate risk within Board approved policy limits. In addition to the risk management activities of ALCO, the Bancorp has a Market Risk Management function as part of ERM that provides independent oversight of market risk activities.

### **Net Interest Income Sensitivity**

The Bancorp employs a variety of measurement techniques to identify and manage its interest rate risk, including the use of an NII simulation model to analyze the sensitivity of net interest income to changes in interest rates. The model is based on contractual and assumed cash flows and repricing characteristics for all of the Bancorp's assets, liabilities and off-balance sheet exposures and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and attrition rates of certain liabilities. The model also includes senior management's projections of the future volume and pricing of each of the product lines offered by the Bancorp as well as other pertinent assumptions. Actual results may differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The Bancorp's interest rate risk exposure is evaluated by measuring the anticipated change in net interest income over 12-month and 24-month horizons assuming 100 bps and 200 bps parallel ramped increases and a 25 bps parallel rate decrease in interest rates. In accordance with policy, the 100 bps and 200 bps parallel ramped increase rate movements are assumed to occur over one year and are sustained thereafter. The 25 bps parallel rate decrease is an immediate change. The analysis would typically include 100 bps and 200 bps parallel ramped decreases in interest rates; however, this analysis is currently omitted due to the current low levels of certain interest rates. Applying the ramps would result in certain interest rates becoming negative in the parallel ramped decrease scenarios.

In this economic cycle, banks have experienced significant growth in deposit balances, particularly in non-interest bearing demand deposits. The Bancorp, like other banks, is exposed to deposit balance run-off in a rising interest rate environment. In consideration of this risk, the Bancorp's NII sensitivity modeling assumes that approximately \$2.5 billion of non-interest bearing demand deposit balances run-off for each 100 bps increase in short-term market interest rates. These lost non-interest bearing demand deposit balances are modeled to flow into funding products that reprice in conjunction with market rate increases.

Another important deposit modeling assumption is the amount by which interest bearing deposit rates will increase when market rates increase. This deposit repricing sensitivity is known as the beta, and it represents the expected amount by which the Bancorp deposit rates will increase for a given increase in short-term market rates. The Bancorp's NII sensitivity modeling assumes a weighted-average interest-bearing deposit beta of approximately 70%, which is approximately 20 percentage points higher than the 50% beta that the Bancorp experienced in the last FRB tightening cycle from June 2004 to June 2006.

The Bancorp continually evaluates the sensitivity of its interest rate risk measures to these important deposit modeling assumptions. The Bancorp also evaluates the sensitivity of other important modeling assumptions, such as loan and security prepayments and early withdrawals on fixed-rate customer liabilities.

The following table shows the Bancorp's estimated net interest income sensitivity profile and ALCO policy limits as of:

**TABLE 55: Estimated NII Sensitivity Profile**

|                                | September 30, 2015    |                 |                    |                 | September 30, 2014    |                 |                    |                 |
|--------------------------------|-----------------------|-----------------|--------------------|-----------------|-----------------------|-----------------|--------------------|-----------------|
|                                | % Change in NII (FTE) |                 | ALCO Policy Limits |                 | % Change in NII (FTE) |                 | ALCO Policy Limits |                 |
|                                | 12 Months             | 13 to 24 Months | 12 Months          | 13 to 24 Months | 12 Months             | 13 to 24 Months | 12 Months          | 13 to 24 Months |
| Change in Interest Rates (bps) |                       |                 |                    |                 |                       |                 |                    |                 |
| + 200                          | <b>1.63 %</b>         | <b>5.40</b>     | <b>(4.00)</b>      | <b>(6.00)</b>   | 1.70                  | 6.71            | (4.00)             | (6.00)          |
| + 100                          | <b>0.87</b>           | <b>3.49</b>     |                    |                 | 0.85                  | 3.99            |                    |                 |
| - 25                           | <b>(1.19)</b>         | <b>(2.00)</b>   |                    |                 | (0.92)                | (1.69)          |                    |                 |

At September 30, 2015, the Bancorp's net interest income would benefit in both year one and year two under the parallel rate ramp increases. The Bancorp's net interest income would decline in both year one and year two under the parallel 25 bps rate decrease. The net interest income sensitivity profile is attributable to the combination of floating-rate assets, including the predominantly floating-rate commercial loan portfolio, and certain intermediate-term fixed-rate liabilities. The changes in the sensitivity profile compared to September 30, 2014 are primarily attributable to composition changes in loan and deposit portfolios.

Tables 56 and 57 provide information on the Bancorp's estimated net interest income sensitivity profile given changes to balances or certain key assumptions.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table shows the Bancorp's estimated net interest income sensitivity profile with a \$1 billion decrease and a \$1 billion increase in demand deposit balances as of September 30, 2015:

**TABLE 56: Estimated NII Sensitivity Assuming a \$1 Billion Change in Demand Deposit Balances**

|                                | Percent Change in NII (FTE)  |                 |                              |                 |
|--------------------------------|------------------------------|-----------------|------------------------------|-----------------|
|                                | \$1 Billion Balance Decrease |                 | \$1 Billion Balance Increase |                 |
|                                | 12 Months                    | 13 to 24 Months | 12 Months                    | 13 to 24 Months |
| Change in Interest Rates (bps) |                              |                 |                              |                 |
| +200                           | 1.35 %                       | 4.83            | 1.92                         | 5.97            |
| +100                           | 0.73                         | 3.21            | 1.01                         | 3.78            |

The following table shows the Bancorp's estimated net interest income sensitivity profile with a 25% increase and a 25% decrease to the deposit beta assumption as of September 30, 2015. The resulting weighted-average interest-bearing deposit beta included in this analysis is approximately 88% and 53%, respectively, as of September 30, 2015:

**TABLE 57: Estimated NII Sensitivity with Deposit Beta Assumption Changes**

|                                | Percent Change in NII (FTE) |                 |                 |                 |
|--------------------------------|-----------------------------|-----------------|-----------------|-----------------|
|                                | Betas 25% Higher            |                 | Betas 25% Lower |                 |
|                                | 12 Months                   | 13 to 24 Months | 12 Months       | 13 to 24 Months |
| Change in Interest Rates (bps) |                             |                 |                 |                 |
| +200                           | (1.46)%                     | (0.79)          | 4.73            | 11.58           |
| +100                           | (0.68)                      | 0.40            | 2.41            | 6.58            |

**Economic Value of Equity Sensitivity**

The Bancorp also uses EVE as a measurement tool in managing interest rate risk. Whereas the net interest income sensitivity analysis highlights the impact on forecasted NII on an FTE basis over one and two year time horizons, the EVE analysis is a point in time analysis of the current positions that incorporates all cash flows over their estimated remaining lives. The EVE of the balance sheet is defined as the discounted present value of all asset and net derivative cash flows less the discounted value of all liability cash flows. Due to this longer horizon, the sensitivity of EVE to changes in the level of interest rates is a measure of longer-term interest rate risk. EVE values only the current balance sheet and does not incorporate the growth assumptions used in the NII sensitivity analysis. As with the NII simulation model, assumptions about the timing and variability of existing balance sheet cash flows are critical in the EVE analysis. Particularly important are assumptions driving loan and security prepayments and the expected balance attrition and pricing of transaction deposits.

The following table shows the Bancorp's EVE sensitivity profile as of:

**TABLE 58: Estimated EVE Sensitivity Profile**

| Change in Interest Rates (bps) | September 30, 2015 |                   | September 30, 2014 |                   |
|--------------------------------|--------------------|-------------------|--------------------|-------------------|
|                                | Change in EVE      | ALCO Policy Limit | Change in EVE      | ALCO Policy Limit |
| +200                           | (4.75)%            | (12.00)           | (4.26)             | (12.00)           |
| +100                           | (1.92)             |                   | (1.96)             |                   |
| +25                            | (0.37)             |                   | (0.45)             |                   |
| -25                            | 0.28               |                   | 0.33               |                   |

The EVE sensitivity to rising rates is modestly negative at September 30, 2015, and is slightly positive to a decline in market rates. The rising rate sensitivity is up from the EVE sensitivity at September 30, 2014. The slight increase in risk in the +200 bps scenario is related to growth in investment portfolio balances partially offset by the impact of growth in intermediate-term fixed-rate liabilities.

While an instantaneous shift in interest rates is used in this analysis to provide an estimate of exposure, the Bancorp believes that a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (e.g., the current fiscal year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships and changing product spreads that could mitigate or exacerbate the impact of changes in interest rates. The NII simulations and EVE analyses do not necessarily include certain actions that management may undertake to manage risk in response to anticipated changes in interest rates.

The Bancorp regularly evaluates its exposures to a static balance sheet forecast, LIBOR, Prime Rate and other basis risks, yield curve twist risks and embedded options risks. In addition, the impact on NII on an FTE basis and EVE of extreme changes in interest rates is modeled, wherein the Bancorp employs the use of yield curve shocks and environment-specific scenarios.

#### **Use of Derivatives to Manage Interest Rate Risk**

An integral component of the Bancorp's interest rate risk management strategy is its use of derivative instruments to minimize significant fluctuations in earnings caused by changes in market interest rates. Examples of derivative instruments that the Bancorp may use as part of its interest rate risk management strategy include interest rate swaps, interest rate floors, interest rate caps, forward contracts, options, swaptions and TBA securities.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

As part of its overall risk management strategy relative to its mortgage banking activities, the Bancorp enters into forward contracts accounted for as free-standing derivatives to economically hedge IRLCs that are also considered free-standing derivatives. Additionally, the Bancorp economically hedges its exposure to mortgage loans held for sale through the use of forward contracts and mortgage options.

The Bancorp also establishes derivatives contracts with major financial institutions to economically hedge significant exposures assumed in commercial customer accommodation derivative contracts. Generally, these contracts have similar terms in order to protect the Bancorp from market volatility. Credit risk arises from the possible inability of counterparties to meet the terms of their contracts, which the Bancorp minimizes through collateral arrangements, approvals, limits and monitoring procedures. For further information including the notional amount and fair values of these derivatives, refer to Note 13 of the Notes to Condensed Consolidated Financial Statements.

**Portfolio Loans and Leases and Interest Rate Risk**

Although the Bancorp's portfolio loans and leases contain both fixed and floating/adjustable-rate products, the rates of interest earned by the Bancorp on the outstanding balances are generally established for a period of time. The interest rate sensitivity of loans and leases is directly related to the length of time the rate earned is established. The following table summarizes the carrying value of the Bancorp's portfolio loans and leases expected cash flows as of September 30, 2015:

**TABLE 59: Portfolio Loans and Leases Expected Cash Flows**

| (\$ in millions)                              | Less than 1 year | 1-5 years     | Over 5 years  | Total         |
|---|------------------|---------------|---------------|---------------|
| Commercial and industrial loans               | \$ 22,231        | 19,273        | 1,444         | 42,948        |
| Commercial mortgage loans                     | 2,779            | 3,839         | 443           | 7,061         |
| Commercial construction loans                 | 1,264            | 1,816         | 21            | 3,101         |
| Commercial leases                             | 778              | 1,755         | 1,365         | 3,898         |
| <b>Subtotal - commercial loans and leases</b> | <b>27,052</b>    | <b>26,683</b> | <b>3,273</b>  | <b>57,008</b> |
| Residential mortgage loans                    | 2,954            | 5,723         | 4,715         | 13,392        |
| Home equity                                   | 1,075            | 1,687         | 5,665         | 8,427         |
| Automobile loans                              | 5,265            | 6,428         | 133           | 11,826        |
| Credit card                                   | 446              | 1,783         |               | 2,229         |
| Other consumer loans and leases               | 479              | 180           | 33            | 692           |
| <b>Subtotal - consumer loans and leases</b>   | <b>10,219</b>    | <b>15,801</b> | <b>10,546</b> | <b>36,566</b> |
| <b>Total</b>                                  | <b>\$ 37,271</b> | <b>42,484</b> | <b>13,819</b> | <b>93,574</b> |

Additionally, the following table displays a summary of expected cash flows, excluding interest receivable, occurring after one year for both fixed and floating/adjustable-rate loans and leases as of September 30, 2015:

**TABLE 60: Portfolio Loans and Leases Expected Cash Flows Occurring After 1 Year**

| (\$ in millions)                       | Interest Rate |                        |
|--|---------------|------------------------|
|  | Fixed         | Floating or Adjustable |
| Commercial and industrial loans        | \$ 2,843      | 17,874                 |
| Commercial mortgage loans              | 960           | 3,322                  |
| Commercial construction loans          | 17            | 1,820                  |
| Commercial leases                      | 3,120         |                        |
| Subtotal - commercial loans and leases | 6,940         | 23,016                 |
| Residential mortgage loans             | 7,664         | 2,774                  |
| Home equity                            | 618           | 6,734                  |
| Automobile loans                       | 6,508         | 53                     |
| Credit card                            | 538           | 1,245                  |
| Other consumer loans and leases        | 15            | 198                    |
| Subtotal - consumer loans and leases   | 15,343        | 11,004                 |
| Total                                  | \$ 22,283     | 34,020                 |

## **Residential Mortgage Servicing Rights and Interest Rate Risk**

The net carrying amount of the residential MSR portfolio was \$756 million and \$856 million as of September 30, 2015 and December 31, 2014, respectively. The value of servicing rights can fluctuate sharply depending on changes in interest rates and other factors. Generally, as interest rates decline and loans are prepaid to take advantage of refinancing, the total value of existing servicing rights declines because no further servicing fees are collected on repaid loans. The Bancorp maintains a non-qualifying hedging strategy relative to its mortgage banking activity in order to manage a portion of the risk associated with changes in the value of its MSR portfolio as a result of changing interest rates.

Mortgage rates decreased during both the three and nine months ended September 30, 2015 and during the nine months ended September 30, 2014 which caused actual prepayments on the servicing portfolio to increase. The increase in actual prepayments on the servicing portfolio caused modeled prepayment speeds to increase, which led to a temporary impairment of \$77 million and \$38 million on servicing rights during the three and nine months ended September 30, 2015, respectively, and a temporary impairment of \$7 million during the nine months ended September 30, 2014. Mortgage rates increased during the three months ended September 30, 2014 which caused modeled prepayments speeds to decrease, which led to a recovery of temporary impairment of \$21 million during the three months ended September 30, 2014. Servicing rights are deemed temporarily impaired when a borrower's loan rate is distinctly higher than prevailing rates. Temporary impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower's loan rate. In addition

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

to the MSR valuation, the Bancorp recognized net gains of \$85 million and \$119 million on derivatives associated with its non-qualifying hedging strategy during the three and nine months ended September 30, 2015, respectively, compared to net losses of \$22 million and net gains of \$40 million during the same periods in the prior year. The Bancorp may adjust its hedging strategy to reflect its assessment of the composition of its MSR portfolio, the cost of hedging and the anticipated effectiveness of the hedges given the economic environment. Refer to Note 12 of the Notes to Condensed Consolidated Financial Statements for further discussion on servicing rights and the instruments used to hedge interest rate risk on MSRs.

**Foreign Currency Risk**

The Bancorp may enter into foreign exchange derivative contracts to economically hedge certain foreign denominated loans. The derivatives are classified as free-standing instruments with the revaluation gain or loss being recorded in other noninterest income in the Condensed Consolidated Statements of Income. The balance of the Bancorp's foreign denominated loans at September 30, 2015 and December 31, 2014 was \$870 million and \$720 million, respectively. The Bancorp also enters into foreign exchange contracts for the benefit of commercial customers involved in international trade to hedge their exposure to foreign currency fluctuations. The Bancorp has internal controls in place to help ensure excessive risk is not being taken in providing this service to customers. These controls include an independent determination of currency volatility and credit equivalent exposure on these contracts, counterparty credit approvals and country limits.

**LIQUIDITY RISK MANAGEMENT**

The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand, unexpected levels of deposit withdrawals and other contractual obligations. Mitigating liquidity risk is accomplished by maintaining liquid assets in the form of cash, investment securities, maintaining sufficient unused borrowing capacity in the debt markets and delivering consistent growth in core deposits. A summary of certain obligations and commitments to make future payments under contracts is included in Note 17 of the Notes to Condensed Consolidated Financial Statements.

The Bancorp maintains a contingency funding plan that assesses the liquidity needs under various scenarios of market conditions, asset growth and credit rating downgrades. The plan includes liquidity stress testing which measures various sources and uses of funds under the different scenarios. The contingency plan provides for ongoing monitoring of unused borrowing capacity and available sources of contingent liquidity to prepare for unexpected liquidity needs and to cover unanticipated events that could affect liquidity.

**Sources of Funds**

The Bancorp's primary sources of funds relate to cash flows from loan and lease repayments, payments from securities related to sales and maturities, the sale or securitization of loans and leases and funds generated by core deposits, in addition to the use of public and private debt offerings.

Table 59 of the Market Risk Management section of MD&A illustrates the expected maturities from loan and lease repayments. Of the \$28.8 billion of securities in the Bancorp's available-for-sale and other portfolio at September 30, 2015, \$4.3 billion in principal and interest is expected to be received in the next 12 months and an additional \$3.6 billion is expected to be received in the next 13 to 24 months. For further information on the Bancorp's securities portfolio, refer to the Investment Securities subsection of the Balance Sheet Analysis of MD&A.

Asset-driven liquidity is provided by the Bancorp's ability to sell or securitize loans and leases. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, the Bancorp has developed securitization and sale procedures for several types of interest-sensitive assets. A majority of the long-term, fixed-rate single-family residential mortgage loans underwritten according to FHLMC or FNMA guidelines are sold for cash upon origination. Additional assets such as certain other residential mortgages, certain commercial loans, home equity loans, automobile loans and other consumer loans are also capable of being securitized or sold. The Bancorp sold or securitized loans totaling \$1.4 billion and \$4.4 billion during the three and nine months ended September 30, 2015, respectively, compared to \$1.3 billion and \$7.4 billion during the three and nine months ended September 30, 2014, respectively. For further information on the transfer of financial assets, refer to Note 12 of the Notes to Condensed Consolidated Financial Statements.

Core deposits have historically provided the Bancorp with a sizeable source of relatively stable and low cost funds. The Bancorp's average core deposits and shareholders' equity funded 81% and 82% of its average total assets for the three and nine months ended September 30, 2015, respectively, and 82% for both the three and nine months ended September 30, 2014. In addition to core deposit funding, the Bancorp also accesses a variety of other short-term and long-term funding sources, which include the use of the FHLB system. Certificates \$100,000 and over and deposits in the Bancorp's foreign branch located in the Cayman Islands are wholesale funding tools utilized to fund asset growth. Management does not rely on any one source of liquidity and manages availability in response to changing balance sheet needs.

As of September 30, 2015, \$8.9 billion of debt or other securities were available for issuance under the current Bancorp's Board of Directors' authorizations and the Bancorp is authorized to file any necessary registration statements with the SEC to permit ready access to the public securities markets; however, access to these markets may depend on market conditions. On July 27, 2015, the Bancorp issued and sold \$1.1 billion of senior fixed-rate notes. At September 30, 2015, the Bancorp has approximately \$36.1 billion of borrowing capacity available through secured borrowing sources including the FHLB and FRB.

The Bancorp's banking subsidiary's global bank note program has a borrowing capacity of \$25 billion. On August 20, 2015, the Bank issued and sold \$1.0 billion of senior fixed-rate notes and \$250 million of senior floating-rate notes. The Bancorp has \$18.4 billion of borrowing capacity under the bank note program as of September 30, 2015.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Liquidity Coverage Ratio and Net Stable Funding Ratio**

A key reform within the Basel III framework to strengthen international liquidity standards was the introduction of the LCR and NSFR. On January 7, 2013, the BCBS issued a final standard for the LCR applicable to large internationally active banking organizations. The BCBS issued a final NSFR standard in the fourth quarter of 2014 and disclosure requirements in the second quarter of 2015 which are applicable to internationally active banks. The NSFR will become a minimum standard by January 1, 2018. The Bancorp is currently evaluating the BCBS standards, and will begin to conform to a domestic version of the NSFR once adopted by the U.S. banking regulators.

Section 165 of the DFA requires the FRB to establish enhanced liquidity standards in the U.S. for BHCs with total assets of \$50 billion or greater. On October 10, 2014, the U.S. Banking Agencies published final rules implementing a quantitative liquidity requirement consistent with the LCR standard established by the BCBS for large internationally active banking organizations, generally those with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure. In addition, a Modified LCR requirement was finalized for BHCs with \$50 billion or more in total consolidated assets that are not internationally active, such as Fifth Third. The Modified LCR requires BHCs to maintain HQLA equal to its calculated net cash outflows over a 30 calendar-day stress period multiplied by a factor of 0.7. The Modified LCR is effective January 1, 2016 and requires BHCs to calculate its LCR on a monthly basis. The final rule includes a transition period for the modified LCR in which BHCs must maintain HQLA of 90% of its calculated net cash outflows for 2016 and then 100% beginning in 2017. The Bancorp estimates its Modified LCR was 107% at September 30, 2015 calculated under the Modified LCR final rule. For more information on LCR, refer to the Non-GAAP Financial Measures section of MD&A.

**Credit Ratings**

The cost and availability of financing to the Bancorp are impacted by its credit ratings. A downgrade to the Bancorp's credit ratings could affect its ability to access the credit markets and increase its borrowing costs, thereby adversely impacting the Bancorp's financial condition and liquidity. Key factors in maintaining high credit ratings include a stable and diverse earnings stream, strong credit quality, strong capital ratios and diverse funding sources, in addition to disciplined liquidity monitoring procedures.

The Bancorp's credit ratings are summarized in Table 61. The ratings reflect the ratings agencies view on the Bancorp's capacity to meet financial commitments. \*

*\* As an investor, you should be aware that a security rating is not a recommendation to buy, sell or hold securities, that it may be subject to revision or withdrawal at any time by the assigning rating organization and that each rating should be evaluated independently of any other rating. Additional information on the credit rating ranking within the overall classification system is located on the website of each credit rating agency.*

**TABLE 61: Agency Ratings**

| As of November 5, 2015      | Moody's   | Standard and Poor's | Fitch | DBRS |
|-----------------------------|-----------|---------------------|-------|------|
| <b>Fifth Third Bancorp:</b> |           |                     |       |      |
| Short-term                  | No rating | A-2                 | F1    | R-1L |
| Senior debt                 | Baa1      | BBB+                | A     | AL   |
| Subordinated debt           | Baa1      | BBB                 | A-    | BBBH |
| <b>Fifth Third Bank:</b>    |           |                     |       |      |
| Short-term                  | P-1       | A-2                 | F1    | R-1L |
| Long-term deposit           | Aa3       | No rating           | A+    | A    |
| Senior debt                 | A3        | A-                  | A     | A    |
| Subordinated debt           | Baa1      | BBB+                | A-    | AL   |

## OPERATIONAL RISK MANAGEMENT

The Bancorp faces ongoing and emerging risks and regulations related to the activities that surround the delivery of banking and financial products. The Bancorp believes that effective management of operational risk plays a major role in both the level and the stability of profitability. Operational risk is the risk of loss from inadequate or failed internal processes, people or systems or from external events. This includes, but is not limited to, the following types of risk: business continuity risk, information management risk, fraud risk, model risk, third party service provider risk, human resources risk and process risk.

The Bancorp's risk management framework consists of five integrated components, including identifying, assessing, managing, monitoring and reporting risks. The Operational Risk Management function is responsible for developing and overseeing the implementation of the Bancorp's approach to managing operational risk. This includes providing training, tools, guidance and oversight to support implementation of key risk programs and systems as they relate to operational risk management, such as risk and control self-assessments, new product/initiative risk reviews, key risk indicators and operational losses. The function is also responsible for developing reports that support the proactive management of operational risk across the enterprise. The lines of business and corporate functions are responsible for managing the operational risks associated with their areas in accordance with the risk management framework. The framework is intended to enable the Bancorp to function with a sound and well-controlled operational environment. These processes support the Bancorp's goals to minimize future operational losses and strengthen the Bancorp's performance by maintaining sufficient capital to absorb operational losses that are incurred.

Information management is a significant operational risk for financial institutions such as the Bancorp, and includes the risk of losses resulting from cyber-attacks. The Bancorp devotes significant time and resources to maintaining and regularly updating technology systems and processes to protect the security of computer systems, software, networks and other technology assets against attempts by third parties to obtain unauthorized access to confidential information, destroy data or cause other damage. The Bancorp and other U.S. financial institutions have experienced distributed denial-of-service attacks from technologically sophisticated third parties. These attacks are designed to saturate

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. To date these attacks have not resulted in any material disruption of the Bancorp's operations or material harm to customers and have not had a material adverse effect on the Bancorp's results of operations.

Cyber-attack risks may also occur with the Bancorp's third-party service providers, and may interfere with their ability to fulfill their contractual obligations, with potential for financial loss or liability that could adversely affect the Bancorp's financial condition or results of operations. Recent high-profile cyber-attacks have targeted retailers and other businesses for the purpose of acquiring the confidential information of customers, some of which are customers of the Bancorp. The Bancorp may incur expenses related to the investigation of such attacks or related to the protection of the Bancorp's customers from identity thefts as a result of such attacks. Risks and exposure related to cyber-attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of internet banking, mobile banking and other technology-based products and services used by the Bancorp and our customers.

**CAPITAL MANAGEMENT**

Management regularly reviews the Bancorp's capital levels to help ensure it is appropriately positioned under various operating environments. The Bancorp has established a Capital Committee which is responsible for making capital plan recommendations to management. These recommendations are reviewed by the ERM Committee and the capital plan is approved by the Board of Directors. The Capital Committee is responsible for execution oversight of the capital actions of the capital plan.

**Capital Ratios**

The Basel III Final Rule was effective for the Bancorp on January 1, 2015, subject to phase-in periods for certain of its components and other provisions. It established quantitative measures that assign risk weightings to assets and off-balance sheet items and also defined and set minimum regulatory capital requirements. The minimum capital ratios established under the Basel III Final Rule are 4.5% for the CET1 capital ratio, 6% for the Tier I risk-based capital ratio, 8% for the Total risk-based capital ratio and 4% for the Tier I capital to average consolidated assets (leverage ratio). The U.S. banking agencies define "well-capitalized" ratios for CET1 capital, Tier I risk-based capital, Total risk-based capital and Tier I capital to average consolidated assets (leverage ratio) greater than or equal to 6.5%, 8%, 10% and 5%, respectively. Additionally, the Basel III Final Rule includes a capital conservation buffer of CET1 capital of 2.5% in addition to the 4.5% minimum requirement, or 7%, in order to avoid limitations on capital distributions and discretionary bonus payments to executive officers. The Bancorp exceeded these "well-capitalized" and "capital conservation buffer" ratios for all periods presented.

The Bancorp made a one-time permanent election to not include AOCI in CET1 capital in the March 31, 2015 FFIEC 031 and FR Y-9C filings. The Basel III Final Rule phases out the inclusion of certain TruPS as a component of Tier I capital. Under these provisions, these TruPS would qualify as a component of Tier II capital. At September 30, 2015, the Bancorp's Tier I capital included \$12 million of TruPS representing approximately 1 bp of risk-weighted assets.

The following table summarizes the Bancorp's capital ratios as of:

**TABLE 62: Capital Ratios**

| (\$ in millions)  | September 30, 2015                          | December 31, 2014            |
|---|---|------------------------------|
| Average total Bancorp shareholders' equity as a percent of average assets                                 | 11.24 %                                     | 11.54                        |
| Tangible equity as a percent of tangible assets <sup>(a)</sup>  | 9.28  | 9.41                         |
| Tangible common equity as a percent of tangible assets (excluding unrealized gains/losses) <sup>(a)</sup> | 8.32  | 8.43                         |
|   | <b>Basel III Transitional<sup>(b)</sup></b> | <b>Basel I<sup>(c)</sup></b> |
| CET1 capital  | \$ 11,574                                   | N/A                          |
| Tier I capital  | 12,914                                      | 12,764                       |
| Total regulatory capital  | 16,849                                      | 16,895                       |
| Risk-weighted assets  | 123,148                                     | 117,878                      |
| <b>Regulatory capital ratios:</b>   |   |                              |
| CET1 capital  | 9.40 %                                      | N/A                          |
| Tier I risk-based capital   | 10.49                                       | 10.83                        |
| Total risk-based capital  | 13.68                                       | 14.33                        |
| Tier I leverage   | 9.38  | 9.66                         |
| Tier I common equity <sup>(a)</sup>   | N/A   | 9.65                         |
|   | <b>Basel III Fully Phased-In</b>            |                              |
| CET1 capital <sup>(a)</sup>   | 9.30 %                                      | N/A                          |

(a) For further information on these ratios, refer to the Non-GAAP Financial Measures section of MD&A.

(b) Under the banking agencies' Basel III Final Rule, assets and credit equivalent amounts of off-balance sheet exposures are calculated according to the standardized approach for risk-weighted assets. The resulting weighted values are added together resulting in the total risk-weighted assets.

(c) These capital amounts and ratios were calculated under the Supervisory Agencies general risk-based capital rules (Basel I) which were in effect prior to January 1, 2015.

---

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**Stress Tests and CCAR**

In 2011 the FRB adopted the capital plan rule, which requires BHCs with consolidated assets of \$50 billion or more to submit annual capital plans to the FRB for review. Under the rule, these capital plans must include detailed descriptions of the following: the BHC's internal processes for assessing capital adequacy; the policies governing capital actions such as common stock issuances, dividends, and share repurchases; and all planned capital actions over a nine-quarter planning horizon. Further, each BHC must also report to the FRB the results of stress tests conducted by the BHC under a number of scenarios that assess the sources and uses of capital under baseline and stressed economic scenarios. The FRB launched the 2015 capital planning and stress testing program, CCAR, on October 23, 2014, with firm submissions of stress test results and capital plans to the FRB due on January 5, 2015, which the Bancorp submitted as required.

The FRB's review of the capital plan assessed the comprehensiveness of the capital plan, the reasonableness of the assumptions and the analysis underlying the capital plan. Additionally, the FRB reviewed the robustness of the capital adequacy process, the capital policy and the Bancorp's ability to maintain capital above the minimum regulatory capital ratios and above a Tier I common ratio of 5% on a pro forma basis under expected and stressful conditions throughout the planning horizon. The FRB assessed the Bancorp's strategies for addressing proposed revisions to the regulatory capital framework agreed upon by the BCBS and requirements arising from the DFA.

On March 11, 2015, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2015 CCAR. For BHCs that proposed capital distributions in their plans, the FRB either objected to the plan or provided a non-objection whereby the FRB permitted the proposed 2015 capital distributions. The FRB indicated to the Bancorp that it did not object to the following capital actions for the period beginning April 1, 2015 and ending June 30, 2016:

- The potential increase in the quarterly common stock dividend to \$0.14 per share in 2016;
- The potential repurchase of common shares in an amount up to \$765 million;
- The additional ability to repurchase shares in the amount of any after-tax gains from the sale of Vantiv, Inc. common stock.

As contemplated by the 2014 CCAR, during the first quarter of 2015, the Bancorp entered into a \$180 million accelerated share repurchase transaction. As contemplated by the 2015 CCAR, the Bancorp entered into \$155 million and \$300 million of accelerated share repurchase transactions during the second and third quarters of 2015, respectively. For further information, refer to Note 16 of the Notes to Condensed Consolidated Financial Statements.

Additionally, as a CCAR institution, the Bancorp is required to disclose the results of its company-run stress test under the supervisory severely adverse scenario, and to provide information related to the types of risk included in its stress testing; a general description of the methodologies used; estimates of certain financial results and pro forma capital ratios; and an explanation of the most significant causes of changes in regulatory capital ratios. On March 5, 2015 the Bancorp publicly disclosed the results of its company-run stress test as required by the DFA stress testing rules, in a Form 8-K.

The BHCs that participated in the 2015 CCAR, including the Bancorp, are required to also conduct mid-cycle company-run stress tests using data as of March 31, 2015. The stress tests must be based on three BHC defined scenarios – baseline, adverse and severely adverse. The Bancorp submitted the results of its mid-cycle stress test to the FRB by the required July 6, 2015 submission date. In addition, the Bancorp published a Form 8-K providing a summary of the results under the severely adverse scenario on July 27, 2015, which is available on Fifth Third's website at <https://www.53.com>. These results represented estimates of the Bancorp's results from the second quarter of 2015 through the second quarter of 2017 under the severely adverse scenario, which is considered highly unlikely to occur.

#### **Dividend Policy and Stock Repurchase Program**

The Bancorp's common stock dividend policy and stock repurchase program reflect its earnings outlook, desired payout ratios, the need to maintain adequate capital levels, the ability of its subsidiaries to pay dividends, the need to comply with safe and sound banking practices as well as meet regulatory requirements and expectations. The Bancorp declared dividends per common share of \$0.13 for both the three months ended September 30, 2015 and 2014 and \$0.39 and \$0.38 for the nine months ended September 30, 2015 and 2014, respectively. The Bancorp entered into or settled a number of accelerated share repurchase transactions during the nine months ended September 30, 2015. Refer to Note 16 of the Notes to Condensed Consolidated Financial Statements for additional information on the accelerated share repurchases.

The following table summarizes the monthly share repurchase activity for the three months ended September 30, 2015:

**TABLE 63: Share Repurchases**

| Period                                 | Total Number<br>of Shares<br>Purchased <sup>(a)</sup> | Average<br>Price<br>Paid Per Share | Total Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly Announced Plans<br>or Programs Under the Plans or Programs <sup>(b)</sup> | Maximum<br>Number of Shares<br>that May Yet be<br>Purchased |
|--|---|------------------------------------|--|---|
| July 1, 2015 - July 31, 2015           | 949,024   | \$ 20.43                           | 842,655  | 55,192,176  |
| August 1, 2015 - August 31, 2015       | 6,116,805   | 20.30                              | 6,039,792  | 49,152,384  |
| September 1, 2015 - September 30, 2015 | 7,976,839   | 19.66                              | 7,884,776  | 41,267,608  |
| Total                                  | 15,042,668  | \$ 19.97                           | 14,767,223   | 41,267,608  |

(a) Includes 275,445 shares repurchased during the third quarter of 2015 in connection with various employee compensation plans. These purchases do not count against the maximum number of shares that may yet be purchased under the Board of Directors' authorization.

(b) In March of 2014, the Bancorp announced that its Board of Directors had authorized management to purchase 100 million shares of the Bancorp's common stock through the open market or in any private party transactions. The authorization does not include specific price targets or an expiration date.

**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**OFF-BALANCE SHEET ARRANGEMENTS**

In the ordinary course of business, the Bancorp enters into financial transactions that are considered off-balance sheet arrangements as they involve varying elements of market, credit and liquidity risk in excess of the amounts recognized in the Condensed Consolidated Balance Sheets. The Bancorp's off-balance sheet arrangements include commitments, contingent liabilities, guarantees, and transactions with non-consolidated VIEs. A brief discussion of these transactions is as follows:

**Commitments**

The Bancorp has certain commitments to make future payments under contracts, including commitments to extend credit, letters of credit, forward contracts related to held for sale residential mortgage loans, noncancelable operating lease obligations, purchase obligations and capital commitments for private equity investments. Refer to Note 17 of the Notes to Condensed Consolidated Financial Statements for additional information on commitments.

**Guarantees and Contingent Liabilities**

The Bancorp has performance obligations upon the occurrence of certain events provided in certain contractual arrangements, including residential mortgage loans sold with representation and warranty provisions or credit recourse. Refer to Note 17 of the Notes to Condensed Consolidated Financial Statements for additional information on guarantees and contingent liabilities.

**Transactions with Non-consolidated VIEs**

The Bancorp engages in a variety of activities that involve VIEs, which are legal entities that lack sufficient equity to finance their activities, or the equity investors of the entities as a group lack any of the characteristics of a controlling interest. The investments in those entities in which the Bancorp was determined not to be the primary beneficiary but holds a variable interest in the entity are accounted for under the equity method of accounting or other accounting standards as appropriate and not consolidated. Refer to Note 11 of the Notes to Condensed Consolidated Financial Statements for additional information on non-consolidated VIEs.

**Table of Contents**

**Quantitative and Qualitative Disclosure about Market Risk (Item 3)**

Information presented in the Market Risk Management section of Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

**Controls and Procedures (Item 4)**

The Bancorp conducted an evaluation, under the supervision and with the participation of the Bancorp's management, including the Bancorp's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bancorp's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on the foregoing, as of the end of the period covered by this report, the Bancorp's Chief Executive Officer and Chief Financial Officer concluded that the Bancorp's disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Bancorp files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and information is accumulated and communicated to the Bancorp's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Bancorp's management also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Bancorp's internal control over financial reporting. Based on this evaluation, there has been no such change during the period covered by this report.

**Table of Contents****Fifth Third Bancorp and Subsidiaries****Condensed Consolidated Financial Statements and Notes (Item 1)****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

|  |    | As of             |                |
|--|----|-------------------|----------------|
|  |    | September 30,     | December 31,   |
|  |    | 2015              | 2014           |
| (\$ in millions, except share data)                    |    |                   |                |
| <b>Assets</b>  |    |                   |                |
| Cash and due from banks <sup>(a)</sup>                 | \$ | 2,455             | 3,091          |
| Available-for-sale and other securities <sup>(b)</sup> |    | 28,799            | 22,408         |
| Held-to-maturity securities <sup>(c)</sup>             |    | 157               | 187            |
| Trading securities                                     |    | 374               | 360            |
| Other short-term investments                           |    | 1,994             | 7,914          |
| Loans held for sale <sup>(d)</sup>                     |    | 994               | 1,261          |
| Portfolio loans and leases <sup>(a) (e)</sup>          |    | 93,574            | 90,084         |
| Allowance for loan and lease losses <sup>(a)</sup>     |    | (1,261)           | (1,322)        |
| Portfolio loans and leases, net                        |    | 92,313            | 88,762         |
| Bank premises and equipment <sup>(f)</sup>             |    | 2,264             | 2,465          |
| Operating lease equipment                              |    | 680               | 728            |
| Goodwill   |    | 2,416             | 2,416          |
| Intangible assets                                      |    | 13                | 15             |
| Servicing rights                                       |    | 757               | 858            |
| Other assets <sup>(a)</sup>                            |    | 8,702             | 8,241          |
| <b>Total Assets</b>                                    |    | <b>\$ 141,918</b> | <b>138,706</b> |
| <b>Liabilities</b>                                     |    |                   |                |
| Deposits:  |    |                   |                |
| Interest-bearing deposits                              | \$ | 66,061            | 66,903         |
| Noninterest-bearing deposits                           |    | 34,832            | 34,809         |
| Total deposits <sup>(g)</sup>                          |    | 100,893           | 101,712        |
| Federal funds purchased                                |    | 132               | 144            |
| Other short-term borrowings                            |    | 4,904             | 1,556          |
| Accrued taxes, interest and expenses                   |    | 1,990             | 2,020          |
| Other liabilities <sup>(a)</sup>                       |    | 2,614             | 2,642          |
| Long-term debt <sup>(a)</sup>                          |    | 15,527            | 14,967         |
| <b>Total Liabilities</b>                               |    | <b>\$ 126,060</b> | <b>123,041</b> |
| <b>Equity</b>  |    |                   |                |

|  |                   |                |
|--|-------------------|----------------|
| Common stock <sup>(h)</sup>            | \$ 2,051          | 2,051          |
| Preferred stock <sup>(i)</sup>         | 1,331             | 1,331          |
| Capital surplus                        | 2,659             | 2,646          |
| Retained earnings                      | 11,826            | 11,141         |
| Accumulated other comprehensive income | 522               | 429            |
| Treasury stock <sup>(h)</sup>          | (2,563)           | (1,972)        |
| Total Bancorp shareholders' equity     | \$ 15,826         | 15,626         |
| Noncontrolling interests               | 32                | 39             |
| <b>Total Equity</b>                    | <b>15,858</b>     | <b>15,665</b>  |
| <b>Total Liabilities and Equity</b>    | <b>\$ 141,918</b> | <b>138,706</b> |

- (a) Includes \$137 and \$179 of cash and due from banks, \$2,179 and \$3,378 of portfolio loans and leases, \$(27) and \$(22) of ALLL, \$18 and \$25 of other assets, \$3 and \$5 of other liabilities, and \$2,136 and \$3,434 of long-term debt from consolidated VIEs that are included in their respective captions above at **September 30, 2015** and **December 31, 2014**, respectively. For further information refer to Note 11.
- (b) Amortized cost of \$27,986 and \$21,677 at **September 30, 2015** and **December 31, 2014**, respectively.
- (c) Fair value of \$157 and \$187 at **September 30, 2015** and **December 31, 2014**, respectively.
- (d) Includes \$617 and \$561 of residential mortgage loans held for sale measured at fair value at **September 30, 2015** and **December 31, 2014**, respectively.
- (e) Includes \$173 and \$108 of residential mortgage loans measured at fair value at **September 30, 2015** and **December 31, 2014**, respectively.
- (f) Includes \$81 and \$26 of bank premises and equipment held for sale at **September 30, 2015** and **December 31, 2014**, respectively. For further information refer to Note 7.
- (g) Includes \$665 and \$0 of deposits held for sale at **September 30, 2015** and **December 31, 2014**, respectively. For further information refer to Note 7.
- (h) Common shares: Stated value \$2.22 per share; authorized 2,000,000,000; outstanding at **September 30, 2015** 795,439,309 (excludes 128,453,272 treasury shares), **December 31, 2014** 824,046,952 (excludes 99,845,629 treasury shares).
- (i) 446,000 shares of undesignated no par value preferred stock are authorized and unissued at **September 30, 2015** and **December 31, 2014**; fixed-to-floating rate non-cumulative Series H perpetual preferred stock with a \$25,000 liquidation preference: 24,000 authorized shares, issued and outstanding at **September 30, 2015** and **December 31, 2014**; fixed-to-floating rate non-cumulative Series I perpetual preferred stock with a \$25,000 liquidation preference: 18,000 authorized shares, issued and outstanding at **September 30, 2015** and **December 31, 2014**; and fixed-to-floating rate non-cumulative Series J perpetual preferred stock with a \$25,000 liquidation preference: 12,000 authorized shares, issued and outstanding at **September 30, 2015** and **December 31, 2014**.

Refer to Notes to Condensed Consolidated Financial Statements.

**Table of Contents****Fifth Third Bancorp and Subsidiaries****Condensed Consolidated Financial Statements and Notes (continued)****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

| (\$ in millions, except share data)                                  | For the three months ended<br>September 30, |       | For the nine months ended<br>September 30, |       |
|--|---|-------|--|-------|
|  | 2015  | 2014  | 2015                                       | 2014  |
| <b>Interest Income</b>   |   |       |  |       |
| Interest and fees on loans and leases                                | \$ 795                                      | 827   | 2,355                                      | 2,477 |
| Interest on securities   | 230   | 189   | 637  | 538   |
| Interest on other short-term investments                             | 1   | 2     | 7  | 5     |
| Total interest income  | 1,026                                       | 1,018 | 2,999                                      | 3,020 |
| <b>Interest Expense</b>  |   |       |  |       |
| Interest on deposits   | 44  | 51    | 140  | 147   |
| Interest on other short-term borrowings                              | 1   | 1     | 2  | 2     |
| Interest on long-term debt   | 80  | 63    | 221  | 174   |
| Total interest expense   | 125   | 115   | 363  | 323   |
| <b>Net Interest Income</b>   | 901   | 903   | 2,636                                      | 2,697 |
| Provision for loan and lease losses                                  | 156   | 71    | 305  | 216   |
| <b>Net Interest Income After Provision for Loan and Lease Losses</b> | 745   | 832   | 2,331                                      | 2,481 |
| <b>Noninterest Income</b>  |   |       |  |       |
| Service charges on deposits  | 145   | 145   | 419  | 418   |
| Investment advisory revenue  | 103   | 103   | 315  | 307   |
| Corporate banking revenue  | 104   | 100   | 280  | 311   |
| Mortgage banking net revenue   | 71  | 61    | 274  | 248   |
| Card and processing revenue  | 77  | 75    | 225  | 218   |
| Other noninterest income   | 213   | 33    | 378  | 300   |
| Securities gains, net  |   | 3     | 9  | 18    |
| Total noninterest income   | 713   | 520   | 1,900                                      | 1,820 |
| <b>Noninterest Expense</b>   |   |       |  |       |
| Salaries, wages and incentives                                       | 387   | 357   | 1,139                                      | 1,083 |
| Employee benefits  | 72  | 75    | 248  | 255   |
| Net occupancy expense  | 77  | 78    | 238  | 236   |

Edgar Filing: FIFTH THIRD BANCORP - Form 10-Q

|   |                    |             |                    |             |
|---|--------------------|-------------|--------------------|-------------|
| Technology and communications                             | <b>56</b>          | 53          | <b>165</b>         | 158         |
| Card and processing expense                               | <b>40</b>          | 37          | <b>114</b>         | 104         |
| Equipment expense   | <b>31</b>          | 30          | <b>92</b>          | 90          |
| Other noninterest expense                                 | <b>280</b>         | 258         | <b>818</b>         | 866         |
| Total noninterest expense                                 | <b>943</b>         | 888         | <b>2,814</b>       | 2,792       |
| <b>Income Before Income Taxes</b>                         | <b>515</b>         | 464         | <b>1,417</b>       | 1,509       |
| Applicable income tax expense                             | <b>134</b>         | 124         | <b>367</b>         | 411         |
| <b>Net Income</b>   | <b>381</b>         | 340         | <b>1,050</b>       | 1,098       |
| Less: Net income attributable to noncontrolling interests |                    |             | <b>(6)</b>         | 2           |
| <b>Net Income Attributable to Bancorp</b>                 | <b>381</b>         | 340         | <b>1,056</b>       | 1,096       |
| Dividends on preferred stock                              | <b>15</b>          | 12          | <b>52</b>          | 44          |
| <b>Net Income Available to Common Shareholders</b>        | <b>\$ 366</b>      | 328         | <b>1,004</b>       | 1,052       |
| <b>Earnings per share - basic</b>                         | <b>\$ 0.46</b>     | 0.39        | <b>1.24</b>        | 1.25        |
| <b>Earnings per share - diluted</b>                       | <b>\$ 0.45</b>     | 0.39        | <b>1.22</b>        | 1.23        |
| <b>Average common shares outstanding - basic</b>          | <b>795,792,825</b> | 829,391,505 | <b>803,269,681</b> | 837,854,214 |
| <b>Average common shares outstanding - diluted</b>        | <b>805,022,588</b> | 838,324,420 | <b>812,099,365</b> | 848,068,145 |
| <b>Cash dividends declared per common share</b>           | <b>\$ 0.13</b>     | 0.13        | <b>0.39</b>        | 0.38        |

*Refer to Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Fifth Third Bancorp and Subsidiaries****Condensed Consolidated Financial Statements and Notes (continued)****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

|  | For the three<br>months ended<br>September 30, |            | For the nine<br>months ended<br>September 30, |              |
|--|--|------------|---|--------------|
| (\$ in millions)   | 2015   | 2014       | 2015  | 2014         |
| <b>Net Income</b>  | <b>\$ 381</b>                                  | <b>340</b> | <b>1,050</b>                                  | <b>1,098</b> |
| <b>Other Comprehensive Income (Loss), Net of Tax:</b>            |  |            |   |              |
| Unrealized gains on available-for-sale securities:               |  |            |   |              |
| Unrealized holding gains (losses) arising during period          | <b>208</b>                                     | (69)       | <b>64</b>                                     | 233          |
| Reclassification adjustment for net gains included in net income | <b>(7)</b>                                     | (3)        | <b>(11)</b>                                   | (16)         |
| Unrealized gains on cash flow hedge derivatives:                 |  |            |   |              |
| Unrealized holding gains (losses) arising during period          | <b>42</b>                                      | (3)        | <b>71</b>                                     | 19           |
| Reclassification adjustment for net gains included in net income | <b>(13)</b>                                    | (7)        | <b>(36)</b>                                   | (20)         |
| Defined benefit pension plans, net:                              |  |            |   |              |
| Net actuarial loss arising during period                         | <b>(1)</b>                                     |            | <b>(3)</b>                                    |              |
| Reclassification of amounts to net periodic benefit costs        | <b>2</b>                                       | 1          |   |              |