FIFTH THIRD BANCORP
Form 10-Q
November 09, 2016
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, 2016

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

Ohio	**31-0854434**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

Fifth Third Center

Cincinnati, Ohio 45263

(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 x 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 x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

There were 755,613,518 shares of the Registrant s common stock, without par value, outstanding as of October 31, 2016.

Table of Contents

FINANCIAL CONTENTS

Part I. Financial Information
Glossary of Abbreviations and Acronyms 2
Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 2)
Selected Financial Data 3
Overview 4
Non-GAAP Financial Measures 9
Recent Accounting Standards 12
Critical Accounting Policies 12
Statements of Income Analysis 13
Balance Sheet Analysis 22
Business Segment Review 28
Risk Management Overview 35
Credit Risk Management 36
Market Risk Management 50
Liquidity Risk Management 54
Operational Risk Management 56
Compliance Risk Management 56
Capital Management 57
Off-Balance Sheet Arrangements 59
Quantitative and Qualitative Disclosures about Market Risk (Item 3) 60
Controls and Procedures (Item 4) 60
Condensed Consolidated Financial Statements and Notes (Item 1)
Balance Sheets (unaudited) 61
Statements of Income (unaudited) 62
Statements of Comprehensive Income (unaudited) 63
Statements of Changes in Equity (unaudited) 64
Statements of Cash Flows (unaudited) 65
Notes to Condensed Consolidated Financial Statements (unaudited) 66
Part II. Other Information
Legal Proceedings (Item 1) 122
Risk Factors (Item 1A) 122
Unregistered Sales of Equity Securities and Use of Proceeds (Item 2) 122
Exhibits (Item 6) 122
Signatures 124
Certifications

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, potential, e forecast, projected, intends to, or may include other similar words or phrases such as believes, plans, trend,

continue, remain, or similar expressions, or future or conditional verbs such as will, would, should, could, or similar 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 or real estate market conditions, either nationally or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, weaken or 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 (22) difficulties in separating the operations of any branches or other assets divested; (23) losses or adverse impacts on the carrying values of branches and long-lived assets in connection with their sales or anticipated sales; (24) inability to achieve expected benefits from branch consolidations and planned sales within desired timeframes, if at all; (25) ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; and (26) 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.

ALCO: Asset Liability Management Committee
ALLL: Allowance for Loan and Lease Losses
AOCI: Accumulated Other Comprehensive Income
ARM: Adjustable Rate Mortgage
ASF: Available Stable Funding
ASU: Accounting Standards Update
ATM: Automated Teller Machine
BCBS: Basel Committee on Banking Supervision

BHC: Bank Holding Company
BOLI: Bank Owned Life Insurance
BPO: Broker Price Opinion
bps: Basis Points
CCAR: Comprehensive Capital Analysis and Review

CDC: Fifth Third Community Development Corporation
CET1: Common Equity Tier 1
CFE: Collateralized Financing Entity
CFPB: Consumer Financial Protection Bureau
C&I: Commercial and Industrial
CRA: Community Reinvestment Act
DCF: Discounted Cash Flow
DFA: Dodd-Frank Wall Street Reform & Consumer Protection Act
DIF: Deposit Insurance Fund
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
GSE: United States Government Sponsored Enterprise
HAMP: Home Affordable Modification Program
HARP: Home Affordable Refinance Program
HFS: Held for Sale
HQLA: High Quality Liquid Assets
IPO: Initial Public Offering
IRC: Internal Revenue Code
IRLC: Interest Rate Lock Commitment
ISDA: International Swaps and Derivatives Association, Inc.
LCR: Liquidity Coverage Ratio
LIBOR: London Interbank Offered Rate
LLC: Limited Liability Company
LTV: Loan-to-Value
MD&A: Management s Discussion and Analysis of Financial Condition and Results of Operations
MSA: Metro Statistical Area
MSR: Mortgage Servicing Right
N/A: Not Applicable
NII: Net Interest Income
NM: Not Meaningful

NSFR: Net Stable Funding Ratio
OAS: Option-Adjusted Spread
OCI: Other Comprehensive Income (Loss)
OREO: Other Real Estate Owned
OTTI: Other-Than-Temporary Impairment
PCA: Prompt Corrective Action
PMI: Private Mortgage Insurance
RSF: Required Stable Funding
SARs: Stock Appreciation Rights

SBA: Small Business Administration
SEC: United States Securities and Exchange Commission
TBA: To Be Announced

FHLMC: Federal Home Loan Mortgage Corporation
FICO: Fair Isaac Corporation (credit rating)
FINRA: Financial Industry Regulatory Authority
FNMA: Federal National Mortgage Association
FRB: Federal Reserve Bank

FTE: Fully Taxable Equivalent
FTP: Funds Transfer Pricing
FTS: Fifth Third Securities
GDP: Gross Domestic Product
GNMA: Government National Mortgage Association
TDR: Troubled Debt Restructuring
TILA: Truth in Lending Act
TRA: Tax Receivable Agreement
TruPS: Trust Preferred Securities
U.S.: United States of America
U.S. GAAP: United States Generally Accepted Accounting Principles
VA: United States 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. The Bancorp s banking subsidiary is referred to as the Bank.

TABLE 1: Selected Financial Data

	For the three months ended			For the nine months ended		
($ in millions, except for per share data)	September 30, **2016**	2015	% Change	September 30, **2016**	2015	% Change
Income Statement Data						
Net interest income (U.S. GAAP)	$ **907**	901	1	$ **2,712**	2,636	3
Net interest income (FTE)[(a)(b)]	**913**	906	1	**2,730**	2,650	3
Noninterest income	**840**	713	18	**2,075**	1,900	9
Total revenue[(a)]	**1,753**	1,619	8	**4,805**	4,550	6
Provision for loan and lease losses	**80**	156	(49)	**289**	305	(5)
Noninterest expense	**973**	943	3	**2,942**	2,814	5
Net income attributable to Bancorp	**516**	381	35	**1,175**	1,056	11
Net income available to common shareholders	**501**	366	37	**1,123**	1,004	12
Common Share Data						
Earnings per share basic	$ **0.66**	0.46	43	$ **1.46**	1.24	18
Earnings per share diluted	**0.65**	0.45	44	**1.45**	1.22	19
Cash dividends declared per common share	**0.13**	0.13	-	**0.39**	0.39	-
Book value per share	**20.44**	18.22	12	**20.44**	18.22	12
Market value per share	**20.46**	18.91	8	**20.46**	18.91	8
Financial Ratios						
Return on average assets	**1.44** %	1.07	35	**1.10** %	1.01	9
Return on average common equity	**12.8**	10.0	28	**9.8**	9.3	5
Return on average tangible common equity[(b)]	**15.2**	12.0	27	**11.7**	11.1	5
Dividend payout ratio	**19.7**	28.3	(30)	**26.7**	31.5	(15)
Average total Bancorp shareholders equity as a percent of average assets	**11.83**	11.24	5	**11.67**	11.35	3
Tangible common equity as a percent of tangible assets[(b)(h)]	**8.78**	8.32	6	**8.78**	8.32	6
Net interest margin[(a)(b)]	**2.88**	2.89	-	**2.88**	2.88	-

Efficiency[(a)(b)]		**55.5**		58.2	(5)		**61.2**	61.8	(1)
Credit Quality									
Net losses charged-off	**$**	**107**		188	(43)	**$**	**289**	366	(21)
Net losses charged-off as a percent of average portfolio loans and leases		**0.45**	**%**	0.80	(44)		**0.41**	**%** 0.53	(23)
ALLL as a percent of portfolio loans and leases		**1.37**		1.35	1		**1.37**	1.35	1
Allowance for credit losses as a percent of portfolio loans and leases[(c)]		**1.54**		1.49	3		**1.54**	1.49	3
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO		**0.75**		0.65	15		**0.75**	0.65	15
Average Balances									
Loans and leases, including held for sale	**$**	**94,417**		94,329	-	**$**	**94,434**	92,919	2
Total securities and other short-term investments		**31,675**		30,102	5		**31,763**	29,905	6
Total assets[(j)]		**142,726**		140,706	1		**142,410**	139,439	2
Transaction deposits[(d)]		**94,855**		94,660	-		**94,821**	95,100	-
Core deposits[(e)]		**98,875**		98,717	-		**98,854**	99,151	-
Wholesale funding[(f)(j)]		**22,236**		21,685	3		**22,418**	19,638	14
Bancorp shareholders equity		**16,883**		15,815	7		**16,615**	15,826	5
Regulatory Capital and Liquidity Ratios									
CET1 capital[(g)]		**10.17**	**%**	9.40[(i)]	8		**10.17**	**%** 9.40[(i)]	8
Tier I risk-based capital[(g)]		**11.27**		10.49[(i)]	7		**11.27**	10.49[(i)]	7
Total risk-based capital[(g)]		**14.88**		13.68[(i)]	9		**14.88**	13.68[(i)]	9
Tier I leverage[(g)]		**9.80**		9.38[(i)]	4		**9.80**	9.38[(i)]	4
CET1 capital (fully phased-in)[(b)(g)]		**10.09**		9.30[(i)]	8		**10.09**	9.30[(i)]	8
Modified LCR		**115**		N/A	N/A		**115**	N/A	N/A

*(a) Amounts presented on an FTE basis. The FTE adjustment for the three months ended **September 30, 2016** and 2015 was **$6** and $5, respectively, and for the nine months ended **September 30, 2016** and 2015 was **$18** and $14, respectively.*

(b) These are non-GAAP measures. For further information, refer to 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) Includes demand deposits, interest checking deposits, savings deposits, money market deposits and foreign office deposits.

(e) Includes transaction deposits and other time deposits.

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

(g) Under the U.S. 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 in the Bancorp s total risk-weighted assets.

(h) Excludes unrealized gains and losses.

(i) Ratios not restated for the adoption of the amended guidance of ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further

information.

(j) Upon adoption of ASU 2015-03 on January 1, 2016, the September 30, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $33 of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 3 of the Notes to Condensed Consolidated Financial Statements.

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, 2016, the Bancorp had $143.3 billion in assets and operated 1,191 full-service banking centers, including 94 Bank Mart® locations, open seven days a week, inside select grocery stores, and 2,497 ATMs in ten 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 Wealth and Asset Management. The Bancorp also has an approximate 18% interest in Vantiv Holding, LLC. The carrying value of the Bancorp s investment in Vantiv Holding, LLC was $404 million at September 30, 2016.

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, 2015. 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 the 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 FTE basis for presenting net interest income is a non-GAAP measure. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

The Bancorp s revenues are dependent on both net interest income and noninterest income. For the three months ended September 30, 2016, net interest income on an FTE basis and noninterest income provided 52% and 48% of total revenue, respectively. For the nine months ended September 30, 2016, net interest income on an FTE basis and noninterest income provided 57% and 43% 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 for both the three and nine months ended September 30, 2016. 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 loss 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, corporate banking revenue, wealth and asset management revenue, card and processing revenue, mortgage banking net 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 Consolidations and Sales Activity

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 certain operating branch locations and certain parcels of undeveloped land that had been acquired by the Bancorp for future branch expansion (the Branch Consolidation and Sales Plan). In addition, the Bancorp announced on September 13, 2016 that it had identified an additional 44 branch locations and 5 parcels of undeveloped land that it planned to consolidate or sell.

On January 29, 2016, the Bancorp closed the previously announced sale in the St. Louis MSA to Great Southern Bank and recorded a gain on the sale of $8 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income. Additionally, on April 22, 2016, the Bancorp closed the previously announced sale in the Pittsburgh MSA to First National Bank of Pennsylvania and recorded a gain on the sale of $11 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income. Both transactions were part of the Branch Consolidation and Sales Plan.

Table of Contents

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

As of September 30, 2016, the Bancorp had 72 branch locations and 37 parcels of undeveloped land that had been acquired for future branch expansion that it intended to consolidate or sell. These branch locations and parcels of undeveloped land, which include unsold properties from the Branch Consolidation and Sales Plan as well as properties included in the September 13, 2016 announcement, represent $45 million, $17 million and $2 million of land and improvements, buildings and equipment, respectively, included in bank premises and equipment in the Condensed Consolidated Balance Sheets as of September 30, 2016, of which $34 million, $10 million and $1 million, respectively, were classified as held for sale. The Bancorp expects to receive approximately $72 million in annual savings from operating expenses upon completion of the Branch Consolidation and Sales Plan and the consolidation and/or sale of properties included in the September 13, 2016 announcement. For further information, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

On September 29, 2016, the Bancorp closed on the sale of an office complex. The sale also included all of the Bancorp s rights, title and interest as a landlord under existing leases in the complex. Under the terms of the transaction, the Bancorp received proceeds of approximately $31 million and entered into a lease agreement whereby the Bancorp leased-back approximately 25% of the office complex. In conjunction with the transaction, which qualified as a sale-leaseback under U.S. GAAP, the Bancorp retired assets with a net book value of approximately $10 million, recognized a deferred gain of $10 million, which will be amortized as a reduction of rent expense over the 15 year lease term, and recorded a gain on the transaction of $11 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income.

Vantiv, Inc. TRA Transactions

On July 27, 2016, the Bancorp entered into an agreement with Vantiv, Inc. under which a portion of its TRAs with Vantiv, Inc. was terminated and settled in full for consideration of a cash payment in the amount of $116 million from Vantiv, Inc. Under the agreement, the Bancorp terminated and settled certain TRA cash flows it expected to receive in the years 2019 to 2035, totaling an estimated $331 million. The Bancorp recognized a pre-tax gain of $116 million in other noninterest income in the Condensed Consolidated Statements of Income from this settlement in the third quarter of 2016.

Additionally, the agreement provides that Vantiv, Inc. may be obligated to pay up to a total of approximately $171 million to the Bancorp to terminate and settle certain remaining TRA cash flows, totaling an estimated $394 million, upon the exercise of certain call options by Vantiv, Inc. or certain put options by the Bancorp. If the associated call options or put options are exercised, 10% of the obligations would be settled with respect to each quarter in 2017 and 15% of the obligations would be settled with respect to each quarter in 2018. The Bancorp recognized a pre-tax gain of $164 million in other noninterest income in the Condensed Consolidated Statements of Income in the third quarter of 2016 associated with these options.

This agreement does not impact the TRA payments expected to be recognized in the fourth quarter of 2016 and the fourth quarter of 2017 which are expected to be received in the first quarter of 2017 and the first quarter of 2018, respectively.

Accelerated Share Repurchase Transactions

During the nine months ended September 30, 2016, 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 15 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, 2016, refer to Table 2.

TABLE 2: Summary of Accelerated Share Repurchase Transactions

Repurchase Date	Amount ($ in millions)	Shares Repurchased	Shares Received from Forward Contract Settlement	Total Shares Repurchased	Settlement Date
December 14, 2015	$ 215	9,248,482	1,782,477	11,030,959	January 14, 2016
March 4, 2016	240	12,623,762	1,868,379	14,492,141	April 11, 2016
August 5, 2016	240	10,979,548	1,099,205	12,078,753	November 7, 2016

Open Market Share Repurchase Transactions

Between June 17, 2016 and June 20, 2016, the Bancorp repurchased 1,436,100 shares, or approximately $26 million, of its outstanding common stock through open market repurchase transactions.

Senior and Subordinated Notes Offerings

On March 15, 2016, the Bank issued and sold $1.5 billion in aggregate principal amount of unsecured bank notes. The bank notes consisted of $750 million of 2.30% senior fixed-rate notes, with a maturity of three years, due on March 15, 2019; and $750 million of 3.85% subordinated fixed-rate notes, with a maturity of ten years, due on March 15, 2026. 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.

On June 14, 2016, the Bank issued and sold $1.3 billion of 2.25% unsecured senior fixed-rate notes, with a maturity of five years, due on June 14, 2021. 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.

Table of Contents

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

On September 2, 2016, the Bank submitted a redemption notice to the Issuing and Paying Agent to redeem $1.0 billion of 1.15% senior fixed-rate notes and $750 million of senior floating-rate notes at three-month LIBOR plus 51 bps. Pursuant to the terms and conditions of the notes, the Bank redeemed the notes on October 19, 2016, which was 30 days prior to their scheduled maturity on November 18, 2016.

On September 27, 2016, the Bank issued and sold $1.0 billion in aggregate principal amount of unsecured senior bank notes, with a maturity of three years, due on September 27, 2019. The bank notes consisted of $750 million of 1.625% senior fixed-rate notes and $250 million of senior floating-rate notes at three-month LIBOR plus 59 bps. The Bancorp entered into interest rate swaps to convert the fixed-rate notes to a floating-rate, which resulted in an effective interest rate of three-month LIBOR plus 53 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.

Legislative and Regulatory Developments

During the first quarter of 2016, the FDIC issued a final rule implementing a 4.5 bps surcharge on the quarterly FDIC insurance assessments of insured depository institutions with total consolidated assets of $10 billion or more. The surcharge will take effect at the same time the FDIC is required to lower the regular FDIC insurance assessments by approximately 2 bps under a rule adopted by the FDIC in 2011, which is triggered by the DIF reserve ratio reaching 1.15% of insured deposits. In August of 2016, the FDIC announced the DIF reserve ratio reached 1.17% of insured deposits as of June 30, 2016. Therefore, on July 1, 2016, the Bancorp became subject to the FDIC surcharge and reduced regular FDIC insurance assessments. The surcharges will continue through the quarter that the DIF reserve ratio first reaches or exceeds 1.35% of insured deposits, but not later than December 31, 2018. If the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall assessment on March 31, 2019, on insured depository institutions with total consolidated assets of $10 billion or more. The FDIC projects the surcharges will be sufficient to raise the DIF reserve ratio to 1.35% in 2018. Fifth Third estimates the announced changes to the FDIC assessments will result in a net increase in its FDIC insurance expense of approximately $23 million on an annual basis.

The FRB launched the 2016 stress testing program and CCAR on January 28, 2016, with submissions of stress test results and capital plans to the FRB due on April 5, 2016, which the Bancorp submitted as required.

On June 29, 2016, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2016 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 capital distributions. The FRB indicated to the Bancorp that it did not object to the following capital actions for the period beginning July 1, 2016 and ending June 30, 2017:

- The potential increase in the quarterly common stock dividend to $0.14 in the fourth quarter of 2016;
- The potential repurchase of common shares in an amount up to $660 million, which includes $84 million in repurchases related to share issuances under employee benefit plans;
- The additional ability to repurchase shares in the amount of any realized after-tax gains from the sale of Vantiv, Inc. common stock, if executed;

The additional ability to repurchase shares in the amount of any realized after-tax gains from the termination and settlement of any portion of the TRA with Vantiv, Inc., if executed.

For more information on the 2016 CCAR results refer to the Capital Management subsection of the Risk 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. Fifth Third s deposit advance product is 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 in Table 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. On June 2, 2016, the CFPB issued proposed rules to create additional consumer protections for certain consumer credit products such as payday loans, vehicle title loans and certain high-cost installment loans. Fifth Third is continuing to offer the service to existing deposit advance product customers and will address how best to meet customers need for a small dollar, short-term credit product when the rules are finalized.

In December 2013, the U.S. banking agencies issued final rules to implement section 619 of the DFA, known as the Volcker Rule, which places limitations on banking organizations ability to (i) engage in short-term proprietary trading and (ii) own, sponsor or have certain relationships with certain private equity funds, hedge funds, and other private funds (collectively covered funds). On July 7, 2016, the FRB announced a third extension of the conformance period, providing the industry until July 21, 2017, to conform investments in and relationships with covered funds that were in place prior to December 31, 2013. The extension does not apply to investments in and relationships with a covered fund made after December 31, 2013 or to short-term proprietary trading activities. The Volcker Rule prohibits banking organizations 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 banking organizations from owning, sponsoring or having certain relationships with covered funds, as well as holding certain collateralized loan obligations that are deemed to contain ownership interests. The Volcker Rule provides several exclusions and exemptions for certain activities, such as underwriting, market making, hedging, trading in certain government obligations and organizing and offering a private fund.

Table of Contents

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

Fifth Third does not sponsor any private funds that, under the Volcker Rule, it is prohibited from sponsoring. At September 30, 2016, the Bancorp had approximately $147 million in interests and approximately $30 million in binding commitments to invest in private equity funds that are affected by the Volcker Rule. The Bancorp recognized $9 million of OTTI primarily associated with certain nonconforming investments affected by the Volcker Rule during the third quarter of 2016. Refer to Note 22 of the Notes to Condensed Consolidated Financial Statements for further information.

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 became effective January 1, 2016 and requires BHCs to calculate its LCR on a monthly basis. Refer to the Liquidity Risk Management subsection of the Risk Management section of MD&A for further discussion on these ratios.

The FRB conducted a regularly scheduled examination covering 2011 through 2013 to determine the Bank s compliance with the CRA. This CRA examination resulted in a rating of Needs to Improve. The Bank believes that the Needs to Improve rating reflects legacy issues that have been remediated during the intervening three years. While the Bank s CRA rating is Needs to Improve the Bancorp and the Bank face limitations and conditions on certain activities, including the commencement of new activities and merger with or acquisitions of other financial institutions. The Bank s next CRA examination is expected to commence during the fourth quarter of 2016.

Earnings Summary

The Bancorp s net income available to common shareholders for the third quarter of 2016 was $501 million, or $0.65 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 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 nine months ended September 30, 2016 was $1.1 billion, or $1.45 per diluted share, which was net of $52 million in preferred stock dividends. For the nine months ended September 30, 2015, the Bancorp s net income available to common shareholders was $1.0 billion, or $1.22 per diluted share, which was net of $52 million in preferred stock dividends. Pre-provision net revenue was $774 million and $1.8 billion for the three and nine months ended September 30, 2016, respectively, compared to $671 million and $1.7 billion for the same periods in 2015. Pre-provision net revenue is a non-GAAP measure. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

Net interest income on an FTE basis (non-GAAP) was $913 million and $2.7 billion for the three and nine months ended September 30, 2016, respectively, an increase of $7 million and $80 million compared to the same periods in the prior year. Net interest income was positively impacted by increases in average taxable securities and yields on average loans and leases. Additionally, net interest income was positively impacted by the decision of the Federal Open Market Committee in December 2015 to raise the target range of the federal funds rate 25 bps. The nine months ended September 30, 2016 also included the positive impact of an increase in average loans and leases. These positive

impacts were partially offset by increases in average long-term debt coupled with decreases in the net interest rate spread. Net interest margin on an FTE basis (non-GAAP) was 2.88% for both the three and nine months ended September 30, 2016 compared to 2.89% and 2.88%, respectively, for the same periods in the prior year.

Noninterest income increased $127 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to an increase in other noninterest income. Noninterest income increased $175 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to increases in other noninterest income and corporate banking revenue partially offset by a decrease in mortgage banking net revenue. Other noninterest income increased $123 million and $174 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods included the impact of a $280 million gain, which was recognized during the third quarter of 2016, from the termination and settlement of gross cash flows from existing Vantiv, Inc. TRAs and the expected obligation to terminate and settle the remaining Vantiv, Inc. TRA cash flows upon the exercise of put or call options. The increase for both periods also included the impact of impairment charges on bank premises and equipment of $28 million and $31 million that were recognized during the three and nine months ended September 30, 2016, respectively, compared to impairment charges of $2 million and $104 million which were recognized during the three and nine months ended September 30, 2015, respectively.

The increase in other noninterest income for both periods was partially offset by a negative valuation adjustment on the stock warrant associated with Vantiv Holding, LLC of $2 million for the three months ended September 30, 2016 compared to a positive valuation adjustment of $130 million for the three months ended September 30, 2015. The nine months ended September 30, 2016 included positive valuation adjustments on the stock warrant of $64 million compared to $215 million for the nine months ended September 30, 2015. Additionally, the increase in other noninterest income for the three and nine months ended September 30, 2016 was partially offset by the recognition of $9 million of OTTI on certain private equity investments in the third quarter of 2016. Refer to Note 22 of the Notes to Condensed Consolidated Financial Statements for further information.

The nine months ended September 30, 2016 also included the impact of gains of $19 million on the sale of certain branches and the $11 million gain on the sale of the agent bankcard loan portfolio during the second quarter of 2016. Additionally, the increase in other noninterest income for the nine months ended September 30, 2016 was partially offset by $61 million of negative valuation adjustments related to the Visa total return swap compared to $27 million for the nine months ended September 30, 2015 as well as by the impact of a $37 million gain on the sale of residential mortgage loans classified as TDRs during the first quarter of 2015.

Mortgage banking net revenue decreased $55 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to a decrease in net mortgage servicing revenue partially offset by an increase in origination fees and gains on loan sales. Corporate banking revenue increased $50 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily driven by increases in lease remarketing fees and syndication fees partially offset by decreases in foreign exchange fees and business lending fees.

Table of Contents

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

Noninterest expense increased $30 million and $128 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits) technology and communications and other noninterest expense partially offset by a decrease in card and processing expense. Personnel costs increased $19 million and $85 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods was driven by increased base compensation, primarily due to personnel additions in risk and compliance and information technology, and increased variable compensation. The increase for the nine months ended September 30, 2016 was also driven by higher retirement and severance costs related to the Bancorp s voluntary early retirement program. Technology and communications expense increased $6 million and $13 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year driven by increased investment in information technology associated with regulatory and compliance initiatives, system maintenance and other growth initiatives.

Other noninterest expense increased $21 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to increases in the provision for the reserve for unfunded commitments, impairment on affordable housing investments and FDIC insurance and other taxes. Other noninterest expense increased $58 million for the nine months ended September 30, 2016 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, losses and adjustments and operating lease expense partially offset by a decrease in loan and lease expense.

Card and processing expense decreased $10 million and $13 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to the impact of renegotiated service contracts.

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 $80 million and $289 million for the three and nine months ended September 30, 2016, respectively, compared to $156 million and $305 million for the same periods in 2015. Net losses charged-off as a percent of average portfolio loans and leases decreased to 0.45% during the three months ended September 30, 2016 compared to 0.80% during the same period in the prior year and decreased to 0.41% for the nine months ended September 30, 2016 compared to 0.53% for the same period in the prior year. At September 30, 2016, nonperforming portfolio assets as a percent of portfolio loans and leases and OREO increased to 0.75% compared to 0.70% at December 31, 2015. For further discussion on credit quality refer to the Credit Risk Management subsection of the Risk Management section of MD&A.

Capital Summary

The Bancorp s capital ratios exceed the well-capitalized guidelines as defined by the PCA requirements of the U.S. banking agencies. As of September 30, 2016, as calculated under the Basel III transition provisions, the CET1 capital ratio was 10.17%, the Tier I risk-based capital ratio was 11.27%, the Total risk-based capital ratio was 14.88% and the Tier I leverage ratio was 9.80%.

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 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 following table reconciles the non-GAAP financial measures of net interest income on an FTE basis, net interest margin and the efficiency ratio to U.S. GAAP:

TABLE 3: Non-GAAP Financial Measures - Net Interest Income on an FTE Basis, Net Interest Margin and Efficiency Ratio

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Net interest income (U.S. GAAP)	**$ 907**	901	**2,712**	2,636
Add: FTE adjustment	**6**	5	**18**	14
Net interest income on an FTE basis (1)	**$ 913**	906	**2,730**	2,650
Net interest income on an FTE basis (annualized) (2)	**3,632**	3,594	**3,640**	3,533
Noninterest income (3)	**$ 840**	713	**2,075**	1,900
Noninterest expense (4)	**973**	943	**2,942**	2,814
Average interest-earning assets (5)	**126,092**	124,431	**126,197**	122,824
Ratios:				
Net interest margin (2) / (5)	**2.88 %**	2.89	**2.88**	2.88
Efficiency ratio (4) / (1) + (3)	**55.5**	58.2	**61.2**	61.8

The following table reconciles the non-GAAP financial measure of income before income taxes on an FTE basis to U.S. GAAP:

TABLE 4: Non-GAAP Financial Measure - Income Before Income Taxes on an FTE Basis

	For the three months ended September 30,	For the nine months ended September 30,

($ in millions)	**2016**	2015	**2016**	2015
Income before income taxes (U.S. GAAP)	**$ 694**	515	**1,556**	1,417
Add: FTE adjustment	**6**	5	**18**	14
Income before income taxes on an FTE basis	**$ 700**	520	**1,574**	1,431

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 5: Non-GAAP Financial Measure - Pre-Provision Net Revenue

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Net interest income (U.S. GAAP)	**$ 907**	901	**2,712**	2,636
Add: Noninterest income	**840**	713	**2,075**	1,900
Less: Noninterest expense	**(973)**	(943)	**(2,942)**	(2,814)
Pre-provision net revenue	**$ 774**	671	**1,845**	1,722

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. This measure is useful for evaluating the performance of a business as it calculates the return available to common shareholders without the impact of intangible assets and their related amortization.

Table of Contents

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

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

TABLE 6: Non-GAAP Financial Measure - Return on Average Tangible Common Equity

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Net income available to common shareholders (U.S. GAAP)	**$ 501**	366	**1,123**	1,004
Add: Intangible amortization, net of tax	**-**	-	**1**	1
Tangible net income available to common shareholders	**$ 501**	366	**1,124**	1,005
Tangible net income available to common shareholders (annualized) (1)	**1,993**	1,452	**1,499**	1,340
Average Bancorp shareholders equity (U.S. GAAP)	**$ 16,883**	15,815	**16,615**	15,826
Less: Average preferred stock	**(1,331)**	(1,331)	**(1,331)**	(1,331)
Average goodwill	**(2,416)**	(2,416)	**(2,416)**	(2,416)
Average intangible assets and other servicing rights	**(10)**	(14)	**(10)**	(15)
Average tangible common equity (2)	**$ 13,126**	12,054	**12,858**	12,064
Return on average tangible common equity (1) / (2)	**15.2 %**	12.0	**11.7**	11.1

The Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio, tangible common equity ratio and tangible book value per share, in addition to capital ratios defined by the U.S. banking agencies. These calculations are intended to complement the capital ratios defined by the U.S. banking agencies 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 which defined various regulatory capital ratios including the CET1 ratio. 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. The Bancorp considers the fully phased-in CET1 ratio a non-GAAP measure since it is not the CET1 ratio in effect for the periods presented. Since analysts and the U.S. banking agencies 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 7: Non-GAAP Financial Measures - Capital Ratios

As of ($ in millions)		September 30, 2016	December 31, 2015	
Total Bancorp Shareholders Equity (U.S. GAAP)	**$**	**16,776**	15,839	
Less: Preferred stock		**(1,331)**	(1,331)	
Goodwill		**(2,416)**	(2,416)	
Intangible assets and other servicing rights		**(10)**	(13)	
Tangible common equity, including unrealized gains / losses (1)		**13,019**	12,079	
Less: AOCI		**(755)**	(197)	
Tangible common equity, excluding unrealized gains / losses (2)		**12,264**	11,882	
Add: Preferred stock		**1,331**	1,331	
Tangible equity (3)	**$**	**13,595**	13,213	
Total Assets (U.S. GAAP)	**$**	**143,279**	141,048	*(f)*
Less: Goodwill		**(2,416)**	(2,416)	
Intangible assets and other servicing rights		**(10)**	(13)	
AOCI, before tax		**(1,162)**	(303)	
Tangible assets, excluding unrealized gains / losses (4)	**$**	**139,691**	138,316	
Common shares outstanding (5)		**756**	785	
Ratios:				
Tangible equity as a percentage of tangible assets (3) / (4)*(d)*		**9.73 %**	9.55	
Tangible common equity as a percentage of tangible assets (2) / (4)*(d)*		**8.78**	8.59	
Tangible book value per share (1) / (5)		**17.22**	15.39	
Basel III Final Rule - Transition to Fully Phased-In				
CET1 capital (transitional)	**$**	**12,299**	11,917	
Less: Adjustments to CET1 capital from transitional to fully phased-in*(a)*		**(4)**	(8)	
CET1 capital (fully phased-in) (6)		**12,295**	11,909	
Risk-weighted assets (transitional)*(b)*		**120,954**	121,290	*(e)*
Add: Adjustments to risk-weighted assets from transitional to fully phased-in*(c)*		**929**	1,178	
Risk-weighted assets (fully phased-in) (7)	**$**	**121,883**	122,468	*(e)*
CET1 capital ratio under Basel III Final Rule (fully phased-in) (6) / (7)		**10.09 %**	9.72	*(e)*

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

(b) 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.

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

(d) Excludes unrealized gains and losses.

(e) Balances not restated for the adoption of the amended guidance of ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further information.

(f) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $34 of debt issuance costs from other assets to long-term debt. For further information, refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further information.

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 the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015. No material changes were made to the valuation techniques or models during the nine months ended September 30, 2016.

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 loans and leases (including yield-related fees), securities and other short-term investments 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 8 and 9 present the components of net interest income, net interest margin and net interest rate spread for the three and nine months ended September 30, 2016 and 2015, 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 (non-GAAP) was $913 million and $2.7 billion for the three and nine months ended September 30, 2016, respectively, an increase of $7 million and $80 million compared to the same periods in the prior year. Net interest income was positively impacted by increases in average taxable securities of $1.5 billion and $3.5 billion for the three and nine months ended September 30, 2016, respectively, and increases in yields on average loans and leases of 10 bps and 5 bps for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. Additionally, net interest income was positively impacted by the decision of the Federal Open Market Committee in December 2015 to raise the target range of the federal funds rate 25 bps. The nine months ended September 30, 2016 also included the positive impact of an increase in average loans and leases of $1.5 billion compared to the same period in the prior year. These positive impacts were partially offset by increases in average long-term debt of $1.4 billion and $1.2 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year coupled with decreases in the net interest rate spread to 2.66% and 2.68% during the three and nine months ended September 30, 2016, respectively, from 2.71% and 2.70% in the same periods in the prior year. The decreases in the net interest rate spread were due to a 12 bps and 9 bps increase in the rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2016, respectively, partially offset by a 7 bps increase in yields on average interest-earning assets for both the three and nine months ended September 30, 2016 compared to the same periods in the prior year.

Net interest margin on an FTE basis (non-GAAP) was 2.88% for both the three and nine months ended September 30, 2016 compared to 2.89% and 2.88% for the three and nine months ended September 30, 2015, respectively. The decrease from the three months ended September 30, 2015 was driven primarily by the aforementioned decrease in net interest rate spread coupled with an increase of $1.7 billion in average interest-earning assets partially offset by an increase in average free funding balances. The nine months ended September 30, 2016 was positively impacted by an increase in average free funding balances compared to the same period in the prior year offset by an increase of $3.4

billion in average interest-earning assets as well as the aforementioned decrease in net interest rate spread. The increase in average free funding balances for both periods was driven by an increase in average demand deposits of $687 million and $881 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year as well as an increase in average shareholders equity of $1.1 billion and $784 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year.

Interest income on an FTE basis from loans and leases (non-GAAP) increased $22 million and $78 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2016 was driven by an increase in yields on average loans and leases of 10 bps compared to the same period in the prior year primarily due to an increase in yields on average commercial and industrial loans. The increase for the nine months ended September 30, 2016 was primarily due to an increase in average loans and leases coupled with an increase in yields on average loans and leases. Average loans and leases increased $1.5 billion for the nine months ended September 30, 2016 compared to the same period in the prior year driven primarily by increases in average residential mortgage loans, average commercial construction loans and average commercial and industrial loans partially offset by a decrease in average automobile loans. Yields on average loans and leases increased 5 bps for the nine months ended September 30, 2016 compared to the same period in the prior year primarily driven by an increase in yields on average commercial and industrial 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 $10 million and $69 million for the three and nine months ended September 30, 2016, 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 increased $7 million for both the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. These increases were primarily due to increases in the cost of average interest-bearing core deposits to 26 bps for both the three and nine months ended September 30, 2016 from 22 bps and 24 bps for the three and nine months ended September 30, 2015, respectively. The increase in the cost of average interest-bearing core deposits for both periods was primarily due to increases in the cost of average interest checking deposits. The increase for the three months ended September 30, 2016 compared to the same period in the prior year was also due to an increase in the cost of average money market deposits. Refer to the Deposits subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp s deposits.

Interest expense on average wholesale funding increased $18 million and $60 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increases for the three and nine months ended September 30, 2016 were primarily due to increases of 24 bps and 25 bps, respectively, in the rates paid on average long-term debt coupled with the aforementioned increases in average long-term debt.

Table of Contents

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

Refer to the Borrowings subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp s borrowings. During both the three and nine months ended September 30, 2016, average wholesale funding represented 26% of average interest-bearing liabilities compared to 25% and 23% during the three and nine months ended September 30, 2015, respectively. For more information on the Bancorp s interest rate risk management, including estimated earnings sensitivity to changes in market interest rates, refer to the Market Risk Management section of MD&A.

TABLE 8: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE Basis

For the three months ended	**September 30, 2016**			September 30, 2015			Attribution of Change in Net Interest Income[a]		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets:									
Interest-earning assets:									
Loans and leases:[b]									
Commercial and industrial loans	**$ 43,125**	**356**	**3.28 %**	$ 43,162	339	3.11 %	$ (2)	19	17
Commercial mortgage loans	**6,891**	**57**	**3.31**	7,038	56	3.17	(1)	2	1
Commercial construction loans	**3,848**	**33**	**3.43**	2,966	23	3.13	8	2	10
Commercial leases	**3,963**	**26**	**2.64**	3,847	27	2.72	-	(1)	(1)
Total commercial loans and leases	**57,827**	**472**	**3.25**	57,013	445	3.09	5	22	27
Residential mortgage loans	**15,346**	**136**	**3.51**	13,976	128	3.63	12	(4)	8
Home equity	**7,918**	**75**	**3.76**	8,521	78	3.61	(6)	3	(3)
Automobile loans	**10,508**	**72**	**2.71**	11,881	79	2.62	(10)	3	(7)
Credit card	**2,165**	**56**	**10.34**	2,277	60	10.38	(4)	-	(4)
Other consumer loans and leases	**653**	**11**	**6.90**	661	10	6.81	1	-	1
Total consumer loans and leases	**36,590**	**350**	**3.80**	37,316	355	3.78	(7)	2	(5)
Total loans and leases	**$ 94,417**	**822**	**3.46 %**	$ 94,329	800	3.36 %	$ (2)	24	22
Securities:									
Taxable	**29,772**	**238**	**3.18**	28,251	229	3.23	12	(3)	9
	76	**1**	**4.91**	52	1	5.20	-	-	-

Exempt from income taxes[b]										
Other short-term investments	**1,827**	**2**	**0.44**	1,799	1	0.23	-	1	1
Total interest-earning assets	**$ 126,092**	**1,063**	**3.36 %**	$ 124,431	1,031	3.29 %	$ 10	22	32
Cash and due from banks	**2,289**			2,503					
Other assets	**15,644**			15,064 [d]					
Allowance for loan and lease losses	**(1,299)**			(1,292)					
Total assets	**$ 142,726**			$ 140,706 [d]					
Liabilities and Equity:									
Interest-bearing liabilities:									
Interest checking deposits	**$ 24,475**	**14**	**0.23 %**	$ 25,590	11	0.18 %	$ -	3	3
Savings deposits	**14,232**	**2**	**0.04**	14,868	2	0.05	-	-	-
Money market deposits	**19,706**	**13**	**0.27**	18,253	10	0.21	-	3	3
Foreign office deposits	**524**	**-**	**0.17**	718	-	0.14	-	-	-
Other time deposits	**4,020**	**13**	**1.24**	4,057	12	1.19	1	-	1
Total interest-bearing core deposits	**62,957**	**42**	**0.26**	63,486	35	0.22	1	6	7
Certificates $100,000 and over	**2,768**	**8**	**1.28**	2,924	9	1.16	(2)	1	(1)
Other deposits	**749**	**1**	**0.41**	222	-	0.16	1	-	1
Federal funds purchased	**446**	**-**	**0.40**	1,978	-	0.14	(1)	1	-
Other short-term borrowings	**2,171**	**2**	**0.30**	1,897	1	0.13	-	1	1
Long-term debt	**16,102**	**97**	**2.40**	14,664 [d]	80	2.16	8	9	17
Total interest-bearing liabilities	**$ 85,193**	**150**	**0.70 %**	$ 85,171 [d]	125	0.58 %	$ 7	18	25
Demand deposits	**35,918**			35,231					
Other liabilities	**4,704**			4,458					
Total liabilities	**$ 125,815**			$ 124,860 [d]					
Total equity	**$ 16,911**			$ 15,846					
Total liabilities and equity	**$ 142,726**			$ 140,706 [d]					
Net interest income (FTE)[c]		**$ 913**			$ 906		$ 3	4	7
Net interest margin (FTE)[c]			**2.88 %**			2.89 %			

Net interest rate spread (FTE)	**2.66**	2.71
Interest-bearing liabilities to interest-earning assets	**67.56**	68.45

(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 **$6** and $5 for the three months ended **September 30, 2016** and 2015, respectively.*

(c) Net interest income (FTE) and net interest margin (FTE) are non-GAAP measures. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

(d) Upon adoption of ASU 2015-03 on January 1, 2016, the September 30, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $33 of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 3 of the Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

ABLE 9: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE Basis

or the nine months ended	September 30, 2016			September 30, 2015			Attribution of Change i Net Interest Income[a]		
(in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
ssets:									
terest-earning assets:									
oans and leases:[b]									
Commercial and industrial loans	**$ 43,376**	**1,057**	**3.25 %**	$ 42,399	995	3.14 %	$ 25	37	62
Commercial mortgage loans	**6,878**	**169**	**3.29**	7,144	172	3.22	(7)	4	(3
Commercial construction loans	**3,567**	**91**	**3.39**	2,574	61	3.17	25	5	30
Commercial leases	**3,914**	**79**	**2.71**	3,780	80	2.82	2	(3)	(1
otal commercial loans and leases	**57,735**	**1,396**	**3.23**	55,897	1,308	3.13	45	43	88
Residential mortgage loans	**14,866**	**397**	**3.57**	13,624	378	3.71	34	(15)	19
Home equity	**8,072**	**229**	**3.79**	8,658	236	3.64	(16)	9	(7
Automobile loans	**10,892**	**219**	**2.68**	11,905	236	2.65	(20)	3	(17
Credit card	**2,213**	**174**	**10.48**	2,298	177	10.31	(6)	3	(3
Other consumer loans and leases	**656**	**32**	**6.51**	537	34	8.45	7	(9)	(2
otal consumer loans and leases	**36,699**	**1,051**	**3.82**	37,022	1,061	3.83	(1)	(9)	(10
otal loans and leases	**$ 94,434**	**2,447**	**3.46 %**	$ 92,919	2,369	3.41 %	$ 44	34	78
ecurities:									
Taxable	**29,798**	**705**	**3.16**	26,251	635	3.24	85	(15)	70
Exempt from income taxes[b]	**80**	**2**	**4.43**	57	2	5.08	-	-	-
ther short-term investments	**1,885**	**6**	**0.43**	3,597	7	0.25	(4)	3	(1
otal interest-earning assets	**$ 126,197**	**3,160**	**3.35 %**	$ 122,824	3,013	3.28 %	$ 125	22	147
Cash and due from banks	**2,284**			2,655					
Other assets	**15,218**			15,264[d]					
Allowance for loan and lease losses	**(1,289)**			(1,304)					
otal assets	**$ 142,410**			$ 139,439[d]					
iabilities and Equity:									
terest-bearing liabilities:									
nterest checking deposits	**$ 24,974**	**42**	**0.23 %**	$ 26,452	38	0.19 %	$ (3)	7	4
Savings deposits	**14,469**	**5**	**0.05**	15,065	7	0.06	(1)	(1)	(2
Money market deposits	**19,203**	**37**	**0.26**	17,942	34	0.25	2	1	3
Foreign office deposits	**497**	**1**	**0.16**	844	1	0.16	-	-	-
Other time deposits	**4,033**	**38**	**1.23**	4,051	36	1.20	1	1	2
otal interest-bearing core deposits	**63,176**	**123**	**0.26**	64,354	116	0.24	(1)	8	7
Certificates $100,000 and over	**2,801**	**27**	**1.28**	2,722	24	1.19	1	2	3
Other deposits	**407**	**1**	**0.41**	75	-	0.16	1	-	1
Federal funds purchased	**582**	**2**	**0.38**	832	-	0.13	1	1	2
Other short-term borrowings	**3,160**	**8**	**0.36**	1,736	2	0.12	1	5	6

Long-term debt	**15,468**	**269**	**2.33**		14,273[(d)]	221	2.08		20	28	48
otal interest-bearing liabilities	**$ 85,594**	**430**	**0.67 %**	$	83,992[(d)]	363	0.58 %	$	23	44	67
emand deposits	**35,678**				34,797						
ther liabilities	**4,492**				4,788						
otal liabilities	**$ 125,764**			$	123,577[(d)]						
otal equity	**$ 16,646**			$	15,862						
otal liabilities and equity	**$ 142,410**			$	139,439[(d)]						
et interest income (FTE)[(c)]		**$ 2,730**				$ 2,650			$ 102	(22)	80
et interest margin (FTE)[(c)]			**2.88 %**				2.88 %				
et interest rate spread (FTE)			**2.68**				2.70				
terest-bearing liabilities to interest-earning assets			**67.83**				68.38				

(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 **$18** and $14 for the nine months ended **September 30, 2016** and 2015, respectively.*

(c) Net interest income (FTE) and net interest margin (FTE) are non-GAAP measures. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

(d) Upon adoption of ASU 2015-03 on January 1, 2016, the September 30, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $33 of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 3 of the Notes to Condensed Consolidated Financial Statements.

Provision for Loan and Lease Losses

The Bancorp provides as an expense an amount for probable loan and lease 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, 2015. 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 are referred to as charge-offs. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

Table of Contents

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

The provision for loan and lease losses was $80 million and $289 million for the three and nine months ended September 30, 2016, respectively, compared to $156 million and $305 million during the same periods in the prior year. The decrease in provision expense for both periods was primarily due to the impact of the restructuring of a student loan backed commercial credit originated in 2007 during the third quarter of 2015 partially offset by prolonged softness in commodity prices, slow global economic growth and appreciation of the U.S. dollar. The ALLL was $1.3 billion at both September 30, 2016 and December 31, 2015. At both September 30, 2016 and December 31, 2015, the ALLL as a percent of portfolio loans and leases was 1.37%.

Refer to the Credit Risk Management subsection of the 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 $127 million and $175 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year.

The following table presents the components of noninterest income:

TABLE 10: Components of Noninterest Income

	For the three months ended September 30,			For the nine months ended September 30,		
($ in millions)	**2016**	2015	% Change	**2016**	2015	% Change
Service charges on deposits	**$ 143**	145	(1)	**$ 417**	419	-
Corporate banking revenue	**111**	104	7	**330**	280	18
Wealth and asset management revenue	**101**	103	(2)	**304**	315	(3)
Card and processing revenue	**79**	77	3	**240**	225	7
Mortgage banking net revenue	**66**	71	(7)	**219**	274	(20)
Other noninterest income	**336**	213	58	**552**	378	46
Securities gains, net	**4**	-	100	**13**	9	44
Total noninterest income	**$ 840**	713	18	**$ 2,075**	1,900	9

Service charges on deposits

Service charges on deposits decreased $2 million for both the three and nine months ended September 30, 2016 compared to the same periods in the prior year. The decrease for the three and nine months ended September 30, 2016 compared to the same periods in the prior year was due to a $3 million and $8 million, respectively, decrease in consumer deposit fees driven by a decrease in consumer checking fees partially offset by a $1 million and $6 million, respectively, increase in commercial deposit fees driven by new customer acquisition.

Corporate banking revenue

Corporate banking revenue increased $7 million and $50 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both the three and nine months ended September 30, 2016 compared to the same periods in the prior year was primarily driven by increases in lease remarketing fees and syndication fees. The increase for the nine months ended September 30, 2016 was partially offset by decreases in foreign exchange fees and letter of credit fees. The increase in lease remarketing fees of $5 million and $35 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year included an $11 million gain on certain commercial lease terminations partially offset by $6 million of impairment charges related to certain operating lease equipment that were recognized during the third quarter of 2016. The increase in lease remarketing fees for the nine months ended September 30, 2016 compared to the same period in the prior year also included the impact of $36 million of impairment charges related to operating lease equipment that was recognized during the nine months ended September 30, 2015. Syndication fees increased $4 million and $31 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year as a result of increased activity in the market. Foreign exchange fees decreased $11 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily driven by lower volume coupled with lower volatility. Letter of credit fees decreased $7 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily driven by a decrease in outstanding VRDNs.

Wealth and asset management revenue

Wealth and asset management revenue (formerly investment advisory revenue) decreased $2 million and $11 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for both the three and nine months ended September 30, 2016 compared to the same periods in the prior year was primarily due to decreases of $4 million and $13 million, respectively, in transactional securities and brokerage fees driven by lower sales and trading volume. These decreases were partially offset by a $2 million increase in private client service fees and institutional fees for both the three and nine months ended September 30, 2016 compared to the same periods in the prior year. The Bancorp had approximately $314 billion and $297 billion in total assets under care at September 30, 2016 and 2015, respectively, and managed $27 billion and $25 billion in assets for individuals, corporations and not-for-profit organizations at September 30, 2016 and 2015, respectively.

Card and processing revenue

Card and processing revenue increased $2 million and $15 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily driven by an increase in the number of actively used cards and customer spend volume.

Table of Contents

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

Mortgage banking net revenue

Mortgage banking net revenue decreased $5 million and $55 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year.

The following table presents the components of mortgage banking net revenue:

TABLE 11: Components of Mortgage Banking Net Revenue

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Origination fees and gains on loan sales	**$ 61**	46	**156**	134
Net mortgage servicing revenue:				
Gross mortgage servicing fees	**49**	54	**151**	169
MSR amortization	**(35)**	(37)	**(96)**	(110)
Net valuation adjustments on MSRs and free-standing derivatives purchased to economically hedge MSRs	**(9)**	8	**8**	81
Net mortgage servicing revenue	**5**	25	**63**	140
Mortgage banking net revenue	**$ 66**	71	**219**	274

Origination fees and gains on loan sales increased $15 million and $22 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year driven by an increase in saleable residential mortgage loan originations. Residential mortgage loan originations increased to $2.9 billion and $7.3 billion during the three and nine months ended September 30, 2016, respectively, compared to $2.3 billion and $6.6 billion during the same periods in the prior year.

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 $20 million and $77 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decreases for the three and nine months ended September 30, 2016 compared to the same periods in the prior year were driven by decreases of $17 million and $73 million in net valuation adjustments, respectively, as well as decreases of $5 million and $18 million in gross mortgage servicing fees, respectively. These decreases were partially offset by decreases in MSR amortization of $2 million and $14 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year.

The following table presents the components of net valuation adjustments on the MSR portfolio and the impact of the non-qualifying hedging strategy:

TABLE 12: Components of Net Valuation Adjustments on MSRs

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio	**$ (16)**	85	**133**	119
(Provision for) recovery of MSR impairment	**7**	(77)	**(125)**	(38)
Net valuation adjustments on MSR and free-standing derivatives purchased to economically hedge MSRs	**$ (9)**	8	**8**	81

Mortgage rates increased during the three months ended September 30, 2016. Actual prepayment speeds also increased during the three months ended September 30, 2016, but were associated with the interest rate decline at the end of the second quarter of 2016 as there is a natural lag between interest rate movements and prepayments. The increase in mortgage rates caused modeled prepayment speeds to decrease, which led to a recovery of temporary impairment on servicing rights during the period. Mortgage rates decreased during the nine months ended September 30, 2016. Mortgage rates were also lower during both the three and nine months ended September 30, 2015 which caused actual prepayments on the servicing portfolio to increase. Lower mortgage rates caused modeled prepayment speeds to increase, which led to temporary impairment on servicing rights during the periods.

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 11 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 12 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, 2016 and 2015 were $70.2 billion and $74.5 billion, respectively, with $54.6 billion and $60.3 billion, respectively, of residential mortgage loans serviced for others.

Table of Contents

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

Other noninterest income

The following table presents the components of other noninterest income:

TABLE 13: Components of Other Noninterest Income

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Income from the TRA associated with Vantiv, Inc.	**$ 280**	-	**280**	-
Operating lease income	**27**	22	**76**	66
Valuation adjustments on the warrant associated with Vantiv Holding, LLC	**(2)**	130	**64**	215
Equity method income from interest in Vantiv Holding, LLC	**21**	17	**51**	42
BOLI income	**12**	12	**39**	37
Cardholder fees	**12**	11	**33**	33
Gains on sale of branches	**-**	-	**19**	-
Consumer loan and lease fees	**7**	6	**17**	18
Banking center income	**5**	6	**15**	16
Insurance income	**3**	3	**9**	11
Net gains (losses) on loan sales	**1**	(1)	**8**	40
Private equity investment income	**(5)**	12	**5**	21
Loss on swap associated with the sale of Visa, Inc. class B shares	**(12)**	(8)	**(61)**	(27)
Net losses on disposition and impairment of bank premises and equipment	**(17)**	(1)	**(14)**	(102)
Other, net	**4**	4	**11**	8
Total other noninterest income	**$ 336**	213	**552**	378

Other noninterest income increased $123 million during the three months ended September 30, 2016 compared to the same period in the prior year primarily due to an increase in the income from the TRA associated with Vantiv, Inc. partially offset by decreases in positive valuation adjustments on the warrant associated with Vantiv Holding, LLC and private equity investment income as well as an increase in net losses on disposition and impairment of bank premises and equipment. Other noninterest income increased $174 million during the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to increases in the income from the TRA associated with Vantiv, Inc. and gains on sale of branches as well as a decrease in the net losses on disposition and impairment of bank premises and equipment. These increases were partially offset by decreases in positive valuation adjustments on the warrant associated with Vantiv Holding, LLC, net gains on loan sales and private equity investment income as well as an increase in the loss on the swap associated with the sale of Visa, Inc. class B shares.

The increase for both periods included the impact of a $280 million gain, which was recognized during the third quarter of 2016, from the termination and settlement of gross cash flows from existing Vantiv, Inc. TRAs and the expected obligation to terminate and settle the remaining Vantiv, Inc. TRA cash flows upon the exercise of put or call

options. The increase for the three and nine months ended September 30, 2016 compared to the same periods in the prior year also included the impact of impairment charges of $28 million and $31 million, respectively, included in net losses on disposition and impairment of bank premises and equipment, compared to impairment charges of $2 million and $104 million which were recognized during the three and nine months ended September 30, 2015, respectively. The impairment charges for both the three and nine months ended September 30, 2016 were partially offset by a gain of $11 million on the sale-leaseback of an office complex during the third quarter of 2016. For further information, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

Gains on sale of branches of $19 million for the nine months ended September 30, 2016 included an $11 million gain on the sale of the Bancorp s retail operations in the Pittsburgh MSA to First National Bank of Pennsylvania during the second quarter of 2016 and an $8 million gain on the sale of the Bancorp s retail operations in the St. Louis MSA to Great Southern Bank during the first quarter of 2016.

The Bancorp recognized a negative valuation adjustment on the stock warrant associated with Vantiv Holding, LLC of $2 million and a positive valuation adjustment of $130 million for the three months ended September 30, 2016 and 2015, respectively. The nine months ended September 30, 2016 and 2015 included positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC of $64 million and $215 million, respectively. The fair value of the stock warrant is calculated using the Black-Scholes option-pricing model, which utilizes several key inputs (Vantiv, Inc. stock price, strike price of the warrant and several unobservable inputs). The negative valuation adjustment for the three months ended September 30, 2016 was primarily due to a decrease of 1% in Vantiv, Inc. s share price from June 30, 2016 to September 30, 2016. The positive valuation adjustment for the three months ended September 30, 2015 was primarily due to an increase of 18% in Vantiv, Inc. s share price from June 30, 2015 to September 30, 2015. The positive valuation adjustments for the nine months ended September 30, 2016 and 2015 were primarily due to increases of 19% and 32%, respectively, in Vantiv, Inc. s share price from December 31, 2015 to September 30, 2016 and from December 31, 2014 to September 30, 2015. The changes in the valuation adjustments for the three and nine months ended September 30, 2016 compared to the same periods in the prior year included the impact of the sale and exercise of a portion of the warrant during the fourth quarter of 2015. For additional information on the valuation of the warrant, refer to Note 22 of the Notes to Condensed Consolidated Financial Statements.

Private equity investment income decreased $17 million and $16 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for both periods was primarily driven by the recognition of $9 million of OTTI on certain private equity investments in the third quarter of 2016. Refer to Note 22 of the Notes to Condensed Consolidated Financial Statements for further information.

Table of Contents

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

Net gains on loan sales decreased $32 million for the nine months ended September 30, 2016 compared to the same period in the prior year as the prior period included the impact of a $37 million gain on the sale of residential mortgage loans classified as TDRs during the first quarter of 2015 which was partially offset by the $11 million gain on the sale of the agent bankcard loan portfolio during the second quarter of 2016.

During the nine months ended September 30, 2016, the Bancorp recognized a $61 million negative valuation adjustment related to the Visa total return swap compared to $27 million during the nine months ended September 30, 2015. The adjustment for the nine months ended September 30, 2016 was primarily attributable to the decision of the U.S. Court of Appeals for the Second Circuit to vacate and reverse the district court s approval of the settlement of an interchange antitrust class action litigation matter on June 30, 2016. For additional information on the valuation of the swap associated with the sale of Visa, Inc. Class B shares and the related litigation matters, refer to Note 16, Note 17 and Note 22 of the Notes to Condensed Consolidated Financial Statements.

Noninterest Expense

Noninterest expense increased $30 million and $128 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits), technology and communications expense and other noninterest expense partially offset by a decrease in card and processing expense.

The following table presents the components of noninterest expense:

TABLE 14: Components of Noninterest Expense

	For the three months ended September 30,			For the nine months ended September 30,		
($ in millions)	**2016**	2015	% Change	**2016**	2015	% Change
Salaries, wages and incentives	**$ 400**	387	3	**$ 1,209**	1,139	6
Employee benefits	**78**	72	8	**263**	248	6
Net occupancy expense	**73**	77	(5)	**226**	238	(5)
Technology and communications	**62**	56	11	**178**	165	8
Card and processing expense	**30**	40	(25)	**101**	114	(11)
Equipment expense	**29**	31	(6)	**89**	92	(3)
Other noninterest expense	**301**	280	8	**876**	818	7
Total noninterest expense	**$ 973**	943	3	**$ 2,942**	2,814	5
Efficiency ratio on an FTE basis[(a)]	**55.5 %**	58.2		**61.2 %**	61.8	

(a) This is a non-GAAP measure. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

Personnel costs increased $19 million and $85 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods was driven by increased base compensation, primarily due to personnel additions in risk and compliance and information technology, and increased variable compensation. The increase for the nine months ended September 30, 2016 was also driven by

higher retirement and severance costs related to the Bancorp s voluntary early retirement program. Full-time equivalent employees totaled 18,072 at September 30, 2016 compared to 18,311 at September 30, 2015.

Technology and communications expense increased $6 million and $13 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year driven by increased investment in information technology associated with regulatory and compliance initiatives, system maintenance and other growth initiatives.

Card and processing expense decreased $10 million and $13 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to the impact of renegotiated service contracts.

Table of Contents

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

The following table presents the components of other noninterest expense:

TABLE 15: Components of Other Noninterest Expense

($ in millions)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	**2016**	2015
Impairment on affordable housing investments	**$ 42**	37	**128**	112
FDIC insurance and other taxes	**33**	28	**95**	72
Marketing	**30**	32	**81**	87
Loan and lease	**30**	30	**81**	90
Operating lease	**22**	18	**64**	54
Losses and adjustments	**8**	9	**51**	38
Professional service fees	**14**	21	**43**	49
Data processing	**14**	12	**37**	34
Postal and courier	**12**	11	**35**	34
Travel	**11**	13	**34**	40
Recruitment and education	**10**	9	**28**	24
Provision for the reserve for unfunded commitments	**11**	2	**24**	-
Donations	**9**	5	**15**	15
Insurance	**4**	4	**11**	13
Supplies	**4**	4	**11**	12
Other, net	**47**	45	**138**	144
Total other noninterest expense	**$ 301**	280	**876**	818

Other noninterest expense increased $21 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to increases in the provision for the reserve for unfunded commitments, impairment on affordable housing investments and FDIC insurance and other taxes. The provision for the reserve for unfunded commitments increased $9 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to an increase in estimated loss rates related to unfunded commitments. Impairment on affordable housing investments increased $5 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to incremental losses resulting from previous growth in the portfolio. FDIC insurance and other taxes increased $5 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to the implementation of the FDIC surcharge in the third quarter of 2016. For further information on the FDIC surcharge, refer to the Legislative and Regulatory Developments subsection of the Overview section of MD&A.

Other noninterest expense increased $58 million for the nine months ended September 30, 2016 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, losses and adjustments and operating lease expense partially offset by a decrease in loan and lease expense. The provision for the reserve for unfunded commitments increased $24 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to an increase in estimated loss rates related to unfunded commitments. FDIC insurance and other taxes increased $23 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to the implementation of the FDIC surcharge in the third quarter of 2016 as well as an increase in the FDIC insurance assessment base and a favorable settlement of a tax liability related to prior years during the first quarter of 2015. Impairment on affordable housing investments increased $16 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to incremental losses resulting from previous growth in the portfolio. Losses and adjustments increased $13 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to the impact of favorable legal settlements for the nine months ended September 30, 2015. Additionally, operating lease expense increased $10 million for the nine months ended September 30, 2016 compared to the same period in the prior year. The decrease in loan and lease expense of $9 million for the nine months ended September 30, 2016 compared to the same period in the prior year included lower loan closing and appraisal costs driven by a decline in automobile loan originations.

The Bancorp continues to focus on efficiency initiatives as part of its core emphasis on operating leverage and expense control. The efficiency ratio was 55.5% and 61.2% for the three and nine months ended September 30, 2016, respectively, compared to 58.2% and 61.8% for the three and nine months ended September 30, 2015, respectively. The efficiency ratio is a non-GAAP measure. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

Applicable Income Taxes

The following table presents the Bancorp s income before income taxes, applicable income tax expense and effective tax rate:

TABLE 16: Applicable Income Taxes

($ in millions)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	**2016**	2015
Income before income taxes	**$ 694**	515	**1,556**	1,417
Applicable income tax expense	**178**	134	**385**	367
Effective tax rate	**25.6 %**	26.0	**24.6**	25.9

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.

Table of Contents

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

The decrease in the effective tax rate for the nine months ended September 30, 2016 compared to the same period in the prior year was primarily related to gains on sales of certain leveraged leases that are exempt from federal taxation partially offset by Vantiv, Inc. related gains.

The Bancorp establishes 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 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 Bancorp s stock price at September 30, 2016, the Bancorp believes it will recognize a $7 million non-cash charge to income tax expense over the next twelve months related to stock-based awards, primarily in the second quarter of 2017. 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 recognize a non-cash charge to income tax expense greater than or less than $7 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 its commercial loans and leases based upon primary purpose and consumer loans and leases based upon product or collateral. Table 17 summarizes end of period loans and leases, including loans held for sale and Table 18 summarizes average total loans and leases, including loans held for sale.

TABLE 17: Components of Loans and Leases (including loans held for sale)

	September 30, 2016		December 31, 2015	
As of ($ in millions)	Carrying Value	% of Total	Carrying Value	% of Total
Commercial loans and leases:				
Commercial and industrial loans	**$ 42,829**	**46**	$ 42,151	46
Commercial mortgage loans	**6,860**	**7**	6,991	7
Commercial construction loans	**3,905**	**4**	3,214	3
Commercial leases	**3,995**	**4**	3,854	4
Total commercial loans and leases	**57,589**	**61**	56,210	60
Consumer loans and leases:				
Residential mortgage loans	**15,597**	**17**	14,424	15
Home equity	**7,864**	**8**	8,336	9
Automobile loans	**10,349**	**11**	11,497	12
Credit card	**2,169**	**2**	2,360	3
Other consumer loans and leases	**643**	**1**	658	1
Total consumer loans and leases	**36,622**	**39**	37,275	40
Total loans and leases	**$ 94,211**	**100**	$ 93,485	100
Total portfolio loans and leases (excluding loans held for sale)	**$ 93,151**		$ 92,582	

Loans and leases, including loans held for sale, increased $726 million, or 1%, from December 31, 2015. The increase from December 31, 2015 was the result of a $1.4 billion, or 2%, increase in commercial loans and leases, partially offset by a $653 million, or 2%, decrease in consumer loans and leases.

Commercial loans and leases increased from December 31, 2015 primarily due to increases in commercial construction loans, commercial and industrial loans and commercial leases, partially offset by a decrease in commercial mortgage loans. Commercial construction loans increased $691 million, or 21%, from December 31, 2015 primarily as a result of an increase in new loan origination activity resulting from an increase in demand and targeted marketing efforts. Commercial and industrial loans increased $678 million, or 2%, from December 31, 2015 primarily as a result of increases in new loan origination activity and line utilization. Commercial leases increased $141 million, or 4%, from December 31, 2015 primarily as a result of an increase in syndication and participation origination activity. Commercial mortgage loans decreased $131 million, or 2%, from December 31, 2015 primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

Consumer loans and leases decreased from December 31, 2015 primarily due to decreases in automobile loans, home equity and credit card, partially offset by an increase in residential mortgage loans. Automobile loans decreased $1.1 billion, or 10%, from December 31, 2015 and home equity decreased $472 million, or 6%, from December 31, 2015 as payoffs exceeded new loan production. Credit card decreased $191 million, or 8%, from December 31, 2015 primarily due to the sale of the agent bankcard loan portfolio during the second quarter of 2016 and seasonal trends from the paydown of year-end balances which were higher due to holiday spending. Residential mortgage loans increased $1.2 billion, or 8%, from December 31, 2015 primarily due to the continued retention of certain conforming ARMs and certain other fixed-rate loans originated during the nine months ended September 30, 2016.

TABLE 18: Components of Average Loans and Leases (including loans held for sale)

	September 30, 2016		September 30, 2015	
For the three months ended ($ in millions)	Carrying Value	% of Total	Carrying Value	% of Total
Commercial loans and leases:				
Commercial and industrial loans	**$ 43,125**	**46**	$ 43,162	46
Commercial mortgage loans	**6,891**	**7**	7,038	7
Commercial construction loans	**3,848**	**4**	2,966	3
Commercial leases	**3,963**	**4**	3,847	4
Total commercial loans and leases	**57,827**	**61**	57,013	60
Consumer loans and leases:				
Residential mortgage loans	**15,346**	**17**	13,976	15
Home equity	**7,918**	**8**	8,521	9
Automobile loans	**10,508**	**11**	11,881	13
Credit card	**2,165**	**2**	2,277	2
Other consumer loans and leases	**653**	**1**	661	1
Total consumer loans and leases	**36,590**	**39**	37,316	40
Total average loans and leases	**$ 94,417**	**100**	$ 94,329	100
Total average portfolio loans and leases (excluding loans held for sale)	**$ 93,511**		$ 93,373	

Table of Contents

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

Average loans and leases, including loans held for sale, increased $88 million from September 30, 2015 as a result of an $814 million, or 1%, increase in average commercial loans and leases, partially offset by a $726 million, or 2%, decrease in average consumer loans and leases.

Average commercial loans and leases increased from September 30, 2015 primarily due to increases in average commercial construction loans and average commercial leases, partially offset by a decrease in average commercial mortgage loans. Average commercial construction loans increased $882 million, or 30%, from September 30, 2015 primarily as a result of an increase in new loan origination activity resulting from an increase in demand and targeted marketing efforts. Average commercial leases increased $116 million, or 3%, from September 30, 2015 primarily as a result of an increase in syndication and participation origination activity. Average commercial mortgage loans decreased $147 million, or 2%, from September 30, 2015 primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

Average consumer loans and leases decreased from September 30, 2015 primarily due to decreases in average automobile loans, average home equity and average credit card, partially offset by an increase in average residential mortgage loans. Average automobile loans decreased $1.4 billion, or 12%, from September 30, 2015 and average home equity decreased $603 million, or 7%, from September 30, 2015 as payoffs exceeded new loan production. Average credit card decreased $112 million, or 5%, primarily due to the sale of the agent bankcard loan portfolio during the second quarter of 2016. Average residential mortgage loans increased $1.4 billion, or 10%, from September 30, 2015 primarily driven by the continued retention of certain conforming ARMs and certain other fixed-rate loans.

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 $31.2 billion and $29.5 billion at September 30, 2016 and December 31, 2015, respectively. The taxable investment securities portfolio had an effective duration of 4.0 years at September 30, 2016 compared to 5.1 years at December 31, 2015.

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, 2016, the Bancorp s investment portfolio consisted primarily of AAA-rated available-for-sale securities. Securities classified as below investment grade were immaterial at both September 30, 2016 and December 31, 2015. 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 following table provides a summary of OTTI by security type:

TABLE 19: Components of OTTI by Security Type

	For the three months ended September 30,	For the nine months ended September 30,

($ in millions)	**2016**	2015	**2016**	2015
Available-for-sale and other debt securities	**$ (2)**	-	**(7)**	(5)
Available-for-sale equity securities	**-**	-	**(1)**	-
Total OTTI[(a)]	**$ (2)**	-	**(8)**	(5)

(a) Included in securities gains, net, in the Condensed Consolidated Statements of Income.

Table of Contents

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

The following table summarizes the end of period components of investment securities:

TABLE 20: Components of Investment Securities

As of ($ in millions)		September 30, 2016	December 31, 2015
Available-for-sale and other securities (amortized cost basis):			
U.S. Treasury and federal agencies securities	$	**866**	1,155
Obligations of states and political subdivisions securities		**49**	50
Mortgage-backed securities:			
Agency residential mortgage-backed securities[(a)]		**14,671**	14,811
Agency commercial mortgage-backed securities		**8,449**	7,795
Non-agency commercial mortgage-backed securities		**2,683**	2,801
Asset-backed securities and other debt securities		**2,069**	1,363
Equity securities[(b)]		**699**	703
Total available-for-sale and other securities	$	**29,486**	28,678
Held-to-maturity securities (amortized cost basis):			
Obligations of states and political subdivisions securities	$	**55**	68
Asset-backed securities and other debt securities		**1**	2
Total held-to-maturity securities	$	**56**	70
Trading securities (fair value):			
U.S. Treasury and federal agencies securities	$	**9**	19
Obligations of states and political subdivisions securities		**42**	9
Agency residential mortgage-backed securities		**13**	6
Asset-backed securities and other debt securities		**30**	19
Equity securities		**337**	333
Total trading securities	$	**431**	386

*(a) Includes interest-only mortgage-backed securities of **$33** and $50 as of **September 30, 2016** and December 31, 2015, respectively, recorded at fair value with fair value changes recorded in securities gains, net in the Condensed Consolidated Statements of Income.*

*(b) Equity securities consist of FHLB, FRB and DTCC restricted stock holdings of **$248**, **$357** and **$1**, respectively, at **September 30, 2016** and $248, $355, and $1, respectively, at December 31, 2015, that are carried at cost, and certain mutual fund and equity security holdings.*

On an amortized cost basis, available-for-sale and other securities increased $808 million, or 3%, from December 31, 2015 primarily due to increases in asset-backed securities and other debt securities and agency commercial mortgage-backed securities partially offset by a decrease in U.S. Treasury and federal agencies securities.

On an amortized cost basis, available-for-sale and other securities were 23% of total interest-earning assets at both September 30, 2016 and December 31, 2015. The estimated weighted-average life of the debt securities in the available-for-sale and other securities portfolio was 5.6 years at September 30, 2016 compared to 6.4 years at December 31, 2015. In addition, at September 30, 2016, the available-for-sale and other securities portfolio had a weighted-average yield of 3.35%, compared to 3.19% at December 31, 2015.

Information presented in Table 21 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 securities 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 $1.2 billion at September 30, 2016 compared to $366 million at December 31, 2015. The increase from December 31, 2015 was primarily due to a decrease in interest rates during the nine months ended September 30, 2016. 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 21: Characteristics of Available-for-Sale and Other Securities

As of September 30, 2016 ($ 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	$ 790	803	0.4	4.12 %
Average life 1 5 years	76	78	4.3	1.80
Total	$ 866	881	0.8	3.92 %
Obligations of states and political subdivisions securities:[(a)]				
Average life of 1 year or less	15	15	-	0.11
Average life 5 10 years	34	37	6.5	3.93
Total	$ 49	52	4.6	2.79 %
Agency residential mortgage-backed securities:				
Average life of 1 year or less	53	53	0.8	4.44
Average life 1 5 years	10,053	10,383	3.8	3.65
Average life 5 10 years	4,361	4,538	6.0	3.39
Average life greater than 10 years	204	214	11.5	2.99
Total	$ 14,671	15,188	4.5	3.56 %
Agency commercial mortgage-backed securities:				
Average life 1 5 years	1,606	1,690	3.7	3.10
Average life 5 10 years	6,539	6,943	7.7	3.01
Average life greater than 10 years	304	317	12.0	2.99
Total	$ 8,449	8,950	7.1	3.03 %
Non-agency commercial mortgage-backed securities:				
Average life of 1 year or less	112	113	0.7	4.18
Average life 1 5 years	294	305	3.1	3.43
Average life 5 10 years	2,277	2,416	7.6	3.34
Total	$ 2,683	2,834	6.8	3.39 %
Asset-backed securities and other debt securities:				
Average life of 1 year or less	203	207	0.2	2.58
Average life 1 5 years	790	800	3.1	3.11
Average life 5 10 years	237	237	7.8	2.77
Average life greater than 10 years	839	839	13.3	2.62
Total	$ 2,069	2,083	7.5	2.82 %
Equity securities	699	701		
Total available-for-sale and other securities	$ 29,486	30,689	5.6	3.35 %

(a) Taxable-equivalent yield adjustments included in the above table are 0.00%, 2.14% and 1.49% for securities with an average life of 1 year or less, 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, 2016 and December 31, 2015, respectively.

TABLE 22: Components of Deposits

		September 30, 2016			December 31, 2015	
As of ($ in millions)		Balance	% of Total		Balance	% of Total
Demand	**$**	**35,625**	**34**	$	36,267	35
Interest checking		**24,483**	**24**		26,768	26
Savings		**14,019**	**14**		14,601	14
Money market		**19,910**	**20**		18,494	18
Foreign office		**518**	**1**		464	-
Transaction deposits		**94,555**	**93**		96,594	93
Other time		**3,971**	**4**		4,019	4
Core deposits		**98,526**	**97**		100,613	97
Certificates $100,000 and over[(a)]		**2,745**	**3**		2,592	3
Total deposits	**$**	**101,271**	**100**	$	103,205	100

*(a) Includes **$1,267** and $1,449 of certificates $250,000 and over at **September 30, 2016** and December 31, 2015, respectively.*

Core deposits decreased $2.1 billion, or 2%, from December 31, 2015 driven primarily by a decrease of $2.0 billion, or 2%, in transaction deposits. The decrease from December 31, 2015 included the sale of $511 million of deposits as part of the branches sold in the St. Louis MSA and Pittsburgh MSA during 2016. Transaction deposits decreased from December 31, 2015 primarily due to decreases in interest checking deposits, demand deposits and savings deposits, partially offset by an increase in money market deposits. Interest checking deposits decreased $2.3 billion, or 9%, from December 31, 2015 driven primarily by lower balances per account for commercial customers. Demand deposits decreased $642 million, or 2%, from December 31, 2015 driven primarily by consumer customer seasonality. Money market deposits increased $1.4 billion, or 8%, from December 31, 2015 driven primarily by a promotional product offering during 2016 which drove balance migration from savings deposits, which decreased $582 million, or 4%, compared to December 31, 2015. Money market deposits also increased due to higher balances for existing customers. Certificates $100,000 and over increased $153 million, or 6%, from December 31, 2015 primarily due to the issuance of institutional certificates of deposit during the nine months ended September 30, 2016.

Table of Contents

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

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

TABLE 23: Components of Average Deposits

	September 30, 2016		September 30, 2015	
($ in millions)	Balance	% of Total	Balance	% of Total
Demand	**$ 35,918**	**34**	$ 35,231	34
Interest checking	**24,475**	**24**	25,590	25
Savings	**14,232**	**14**	14,868	15
Money market	**19,706**	**19**	18,253	18
Foreign office	**524**	**1**	718	1
Transaction deposits	**94,855**	**92**	94,660	93
Other time	**4,020**	**4**	4,057	4
Core deposits	**98,875**	**96**	98,717	97
Certificates $100,000 and over[(a)]	**2,768**	**3**	2,924	3
Other	**749**	**1**	222	-
Total average deposits	**$ 102,392**	**100**	$ 101,863	100

*(a) Includes **$1,270** and $1,389 of average certificates $250,000 and over for the three months ended **September 30, 2016** and 2015, respectively.*

On an average basis, core deposits increased $158 million from September 30, 2015 primarily due to an increase of $195 million in average transaction deposits. The increase in average transaction deposits was driven by increases in average money market deposits and average demand deposits, partially offset by decreases in average interest checking deposits, average savings deposits and average foreign office deposits. Average money market deposits and average demand deposits increased $1.5 billion, or 8%, and $687 million, or 2%, respectively, from September 30, 2015 due to the acquisition of new commercial customers and higher average customer balances per commercial customer account. Average money market deposits also increased due to a promotional product offering which drove balance migration from savings deposits, which decreased $636 million, or 4%, compared to September 30, 2015. Average interest checking deposits and average foreign office deposits decreased $1.1 billion, or 4%, and $194 million, or 27%, respectively, from September 30, 2015 primarily due to a decrease in average commercial customer balances per account. Average other deposits increased $527 million from September 30, 2015 primarily due to an increase in Eurodollar trade deposits. Average certificates $100,000 and over decreased $156 million, or 5%, from September 30, 2015 primarily due to the maturity and run-off of institutional certificates of deposit since September 30, 2015.

Contractual maturities

The contractual maturities of certificates $100,000 and over as of September 30, 2016 are summarized in the following table:

TABLE 24: Contractual Maturities of Certificates $100,000 and Over

($ in millions)

Next 3 months	$	493
3-6 months		135
6-12 months		341
After 12 months		1,776
Total certificates $100,000 and over	$	2,745

The contractual maturities of other time deposits and certificates $100,000 and over as of September 30, 2016 are summarized in the following table:

TABLE 25: Contractual Maturities of Other Time Deposits and Certificates $100,000 and Over

($ in millions)

Next 12 months	$	2,302
13-24 months		1,864
25-36 months		810
37-48 months		1,307
49-60 months		415
After 60 months		18
Total other time deposits and certificates $100,000 and over	$	6,716

Borrowings

The Bancorp accesses a variety of other short-term and long-term funding sources. Borrowings with original maturities of one year or less are classified as short-term and include federal funds purchased and other short-term borrowings. Table 26 summarizes the end of period components of total borrowings. As of September 30, 2016, total borrowings as a percent of interest-bearing liabilities were 24% compared to 21% at December 31, 2015.

Table of Contents

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

TABLE 26: Components of Borrowings

As of ($ in millions)		September 30, 2016	December 31, 2015
Federal funds purchased	$	126	151
Other short-term borrowings		3,494	1,507
Long-term debt		16,890	15,810 (a)
Total borrowings	$	20,510	17,468

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $34 of debt issuance costs from other assets to long-term debt. For further information, refer to Note 3 of the Notes to Condensed Consolidated Financial Statements.

Total borrowings increased $3.0 billion, or 17%, from December 31, 2015 primarily due to increases in other short-term borrowings and long-term debt. Other short-term borrowings increased $2.0 billion from December 31, 2015 primarily driven by an increase of $2.0 billion in FHLB short-term borrowings. The level of other short-term borrowings can fluctuate significantly from period to period depending on funding needs and which sources are used to satisfy those needs. For further information on the components of other short-term borrowings, refer to Note 13 of the Notes to Condensed Consolidated Financial Statements. Long-term debt increased $1.1 billion from December 31, 2015 primarily driven by issuances during the nine months ended September 30, 2016 of $2.8 billion of unsecured senior fixed-rate bank notes, $250 million of unsecured senior floating-rate bank notes and $750 million of unsecured subordinated fixed-rate bank notes, partially offset by the maturity of $1.7 billion of unsecured senior bank notes and $1.1 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 10 and Note 14, respectively, of the Notes to Condensed Consolidated Financial Statements.

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

TABLE 27: Components of Average Borrowings

($ in millions)		September 30, 2016	September 30, 2015
Federal funds purchased	$	446	1,978
Other short-term borrowings		2,171	1,897
Long-term debt		16,102	14,664 (a)
Total average borrowings	$	18,719	18,539

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the September 30, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $33 of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 3 of the Notes to Condensed Consolidated Financial Statements.

Total average borrowings increased $180 million, or 1%, compared to September 30, 2015, primarily due to an increase in average long-term debt partially offset by a decrease in average federal funds purchased. The increase in average long-term debt of $1.4 billion was primarily driven by the issuance of asset-backed securities by a consolidated VIE of $750 million related to an automobile loan securitization in the fourth quarter of 2015 and the previously mentioned unsecured note issuances during 2016. The impact of these issuances was partially offset by the aforementioned maturity of unsecured senior bank notes and paydowns on long-term debt associated with automobile

loan securitizations since the third quarter of 2015. Average federal funds purchased decreased $1.5 billion compared to September 30, 2015. The level of average federal funds purchased 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 subsection of the 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 Wealth and Asset Management (formerly 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. In the second quarter of 2016, the Investment Advisors segment name was changed to Wealth and Asset Management to better reflect the services provided by the business segment.

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 Wealth and Asset Management, 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, 2016 to reflect the current market rates and updated market assumptions. These rates were generally higher than those in place during 2015, thus net interest income for deposit-providing businesses was positively impacted during 2016. FTP charge rates on assets were affected by the prevailing level of interest rates and by the duration and repricing characteristics of the portfolio. As overall market rates increased, the FTP charge increased for asset-generating businesses, thus negatively affecting net interest income during 2016. Credit rates for deposit products and charge rates for loan products may be reset periodically in response to changes in market conditions.

During the first quarter of 2016, the Bancorp refined its methodology for allocating provision expense to the business segments to include charges or benefits associated with changes in criticized commercial loan levels in addition to actual net charge-offs experienced by the loans and leases owned by each business segment. The results of operations and financial position for the three and nine months ended September 30, 2015 were adjusted to reflect this change. 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, 2015 were adjusted to reflect changes in internal expense allocation methodologies.

The following table summarizes net income by business segment:

TABLE 28: Net Income by Business Segment

($ in millions)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	**2016**	2015
Income Statement Data				
Commercial Banking	**$ 279**	121	**715**	492
Branch Banking	**91**	98	**330**	190
Consumer Lending	**3**	13	**18**	100
Wealth and Asset Management	**23**	14	**73**	40
General Corporate and Other	**120**	135	**35**	228
Net income	**516**	381	**1,171**	1,050
Less: Net income attributable to noncontrolling interests	**-**	-	**(4)**	(6)
Net income attributable to Bancorp	**516**	381	**1,175**	1,056
Dividends on preferred stock	**15**	15	**52**	52
Net income available to common shareholders	**$ 501**	366	**1,123**	1,004

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 29: Commercial Banking

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Income Statement Data				
Net interest income (FTE)[(a)]	**$ 462**	418	**1,385**	1,221
Provision for (benefit from) loan and lease losses	**(18)**	195	**119**	271
Noninterest income:				
Corporate banking revenue	**110**	104	**328**	276
Service charges on deposits	**75**	72	**218**	212
Other noninterest income	**43**	52	**137**	142
Noninterest expense:				
Personnel costs	**69**	73	**222**	228
Other noninterest expense	**280**	261	**843**	803
Income before income taxes (FTE)	**359**	117	**884**	549
Applicable income tax expense (benefit)[(a)(b)]	**80**	(4)	**169**	57
Net income	**$ 279**	121	**715**	492
Average Balance Sheet Data				
Commercial loans and leases, including held for sale	**$ 54,798**	53,824	**54,648**	52,705
Demand deposits	**20,798**	20,712	**20,612**	20,476
Interest checking deposits	**8,284**	8,996	**8,543**	9,170
Savings and money market deposits	**6,655**	6,838	**6,692**	6,479
Other time deposits and certificates $100,000 and over	**1,008**	1,161	**1,065**	1,256
Foreign office deposits	**523**	717	**496**	839

*(a) Includes FTE adjustments of **$6** and $5 for the three months ended **September 30, 2016** and 2015, respectively, and **$18** and $14 for the nine months ended **September 30, 2016** and 2015, respectively. This is a non-GAAP measure.*

(b) Applicable income tax expense for all periods includes the tax benefit from tax-exempt income, tax-advantaged investments and 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 $279 million for the three months ended September 30, 2016 compared to net income of $121 million for the three months ended September 30, 2015. Net income was $715 million for the nine months ended September 30, 2016 compared to net income of $492 million for the nine months ended September 30, 2015. The increase for both the three and nine months ended September 30, 2016 was driven by an increase in net interest income and a decrease in the provision for loan and lease losses partially offset by an increase in noninterest expense. The increase for the nine months ended September 30, 2016 was also driven by an increase in noninterest income.

Net interest income on an FTE basis increased $44 million and $164 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase in net interest income for both periods was primarily driven by an increase in FTP credit rates on core deposits and an increase in average commercial loan and lease balances as well as an increase in their yields of 22 bps and 15 bps for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase in net interest income for both periods was partially offset by an increase in FTP charge rates on loans and leases.

Provision for loan and lease losses decreased $213 million and $152 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for both periods was primarily due to a $102 million charge-off during the third quarter of 2015 associated with the restructuring of a student loan backed commercial credit originated in 2007 as well as a decrease in criticized commercial loans during the three and nine months ended September 30, 2016. The decrease for the nine months ended September 30, 2016 compared to the same period in the prior year was partially offset by an increase in charge-offs of commercial and industrial loans, primarily in the energy portfolio related to oil field services loans. Net charge-offs as a percent of average portfolio loans and leases decreased to 43 bps for the three months ended September 30, 2016 compared to 101 bps for the same period in the prior year and decreased to 37 bps for the nine months ended September 30, 2016 compared to 53 bps for the same period in the prior year.

Noninterest income was flat and increased $53 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for the nine months ended September 30, 2016 was primarily driven by an increase in corporate banking revenue of $52 million driven by increases in lease remarketing fees and syndication fees partially offset by decreases in foreign exchange fees and business lending fees. This increase was partially offset by a decrease in other noninterest income of $5 million primarily driven by the recognition of $9 million of OTTI on certain private equity investments in the third quarter of 2016.

Noninterest expense increased $15 million and $34 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily 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 and impairment on affordable housing investments. The increase for the nine months ended September 30, 2016 was partially offset by a decrease in loan and lease expense.

Table of Contents

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

Average commercial loans increased $974 million and $1.9 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to increases in average commercial and industrial loans, average commercial construction loans and average commercial leases partially offset by a decrease in average commercial mortgage loans. Average commercial and industrial loans increased $1.0 billion for the nine months ended September 30, 2016 compared to the same period in the prior year and average commercial construction loans increased $886 million and $987 million for the three and nine months ended September 30, 2016, 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 leases increased $120 million and $136 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily as a result of an increase in syndication and participation origination activity. Average commercial mortgage loans decreased $53 million and $195 million for the three and nine months ended September 30, 2016, 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 decreased $1.0 billion and $626 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for the three months ended September 30, 2016 was primarily driven by decreases in average interest checking deposits, average foreign deposits and average savings and money market deposits which decreased $712 million, $194 million and $183 million, respectively, compared to the same period in the prior year. The decrease for the nine months ended September 30, 2016 was primarily driven by decreases in average interest checking deposits and average foreign deposits which decreased $627 million and $343 million, respectively, compared to the same period in the prior year. This decrease was partially offset by an increase in average savings and money market deposits of $213 million for the nine months ended September 30, 2016 compared to the same period in the prior year.

Branch Banking

Branch Banking provides a full range of deposit and loan products to individuals and small businesses through 1,191 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 30: Branch Banking

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Income Statement Data				
Net interest income	**$ 414**	395	**1,272**	1,148
Provision for loan and lease losses	**34**	37	**104**	116

Noninterest income:					
Service charges on deposits		**68**	73	**198**	206
Card and processing revenue		**64**	60	**190**	176
Wealth and asset management revenue		**35**	40	**107**	120
Other noninterest income		**(4)**	24	**71**	(34)
Noninterest expense:					
Personnel costs		**130**	130	**392**	397
Net occupancy and equipment expense		**59**	63	**177**	186
Card and processing expense		**29**	38	**98**	108
Other noninterest expense		**184**	173	**556**	516
Income before income taxes		**141**	151	**511**	293
Applicable income tax expense		**50**	53	**181**	103
Net income	**$**	**91**	98	**330**	190
Average Balance Sheet Data					
Consumer loans, including held for sale	**$**	**13,428**	14,269	**13,658**	14,449
Commercial loans, including held for sale		**1,849**	1,963	**1,896**	1,994
Demand deposits		**13,300**	12,771	**13,283**	12,561
Interest checking deposits		**9,699**	9,003	**9,597**	9,096
Savings and money market deposits		**26,084**	25,155	**25,783**	25,448
Other time deposits and certificates $100,000 and over		**5,225**	5,202	**5,221**	5,141

Net income was $91 million for the three months ended September 30, 2016 compared to net income of $98 million for the three months ended September 30, 2015. The decrease was driven by a decrease in noninterest income partially offset by an increase in net interest income and decreases in the provision for loan and lease losses and noninterest expense. Net income was $330 million for the nine months ended September 30, 2016 compared to $190 million for the same period in the prior year. The increase was driven by increases in net interest income and noninterest income as well as a decrease in the provision for loan and lease losses, partially offset by an increase in noninterest expense.

Net interest income increased $19 million and $124 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods was primarily driven by an increase in FTP credit rates on core deposits partially offset by a decrease in interest income on residential mortgage loans, home equity loans, credit card loans and other consumer loans driven by a decline in average balances. Additionally, net interest income for both periods was negatively impacted by an increase in FTP charge rates on loans and leases.

Table of Contents

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

Provision for loan and lease losses decreased $3 million and $12 million for the three and nine months ended September 30, 2016, 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 93 bps and 90 bps for the three and nine months ended September 30, 2016, respectively, compared to 97 bps for both the three and nine months ended September 30, 2015.

Noninterest income decreased $34 million and increased $98 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for the three months ended September 30, 2016 was primarily driven by decreases in other noninterest income, service charges on deposits and wealth and asset management revenue. Other noninterest income decreased $28 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily driven by impairment charges on bank premises and equipment of $28 million recognized during the three months ended September 30, 2016 compared to $2 million recognized during the three months ended September 30, 2015. Service charges on deposits decreased $5 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to a decrease in consumer deposit fees driven by a decrease in consumer checking fees. Wealth and asset management revenue decreased $5 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to a decrease in transactional securities and brokerage fees driven by lower sales and trading volume. The increase for the nine months ended September 30, 2016 was due to an increase in other noninterest income of $105 million primarily driven by impairment charges on bank premises and equipment of $31 million recognized during the nine months ended September 30, 2016 compared to $104 million recognized during the nine months ended September 30, 2015. Additionally, the increase in other noninterest income for the nine months ended September 30, 2016 included a gain of $19 million on the sale of certain branches in the St. Louis and Pittsburgh MSAs in the first and second quarters of 2016 as well as a gain of $11 million on the sale of the agent bankcard loan portfolio during the second quarter of 2016.

Noninterest expense decreased $2 million and increased $16 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for the three months ended was driven by decreases in card and processing expense and net occupancy and equipment expense partially offset by an increase in other noninterest expense. The increase for the nine months ended September 30, 2016 was primarily driven by an increase in other noninterest expense partially offset by decreases in card and processing expense and net occupancy and equipment expense. Card and processing expense decreased $9 million and $10 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to the impact of renegotiated service contracts. Net occupancy and equipment expense decreased $4 million and $9 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to a decrease in rent expense driven by a reduction in the number of full-service banking centers and ATM locations. Other noninterest expense increased $11 million and $40 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily driven by an increase in corporate overhead allocations.

Average consumer loans decreased $841 million and $791 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for both periods was primarily driven by a decrease in average home equity loans of $477 million and $473 million for the three and nine months ended

September 30, 2016, respectively, compared to the same periods in the prior year and a decrease in average residential mortgage loans of $273 million and $262 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year as payoffs exceeded new loan production. Average commercial loans decreased $114 million and $98 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for both periods was primarily driven by a decrease in average commercial mortgage loans of $83 million and $66 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year and a decrease in average commercial and industrial loans of $25 million for both the three and nine months ended September 30, 2016 compared to the same periods in the prior year as payoffs exceeded new loan production.

Average core deposits increased $2.1 billion and $1.5 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods was primarily driven by growth in average savings and money market deposits of $929 million and $335 million, respectively, growth in average interest checking deposits of $696 million and $501 million, respectively, and growth in average demand deposits of $529 million and $722 million, respectively, for the three and nine months ended September 30, 2016 compared to the same periods in the prior year. The growth in average savings and money market deposits, average interest checking deposits and average demand deposits was driven by an increase in average balances per customer account and acquisition of new customers.

Table of Contents

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

Consumer Lending

Consumer Lending includes the Bancorp s residential mortgage, home equity, automobile and other indirect lending activities. Lending activities include the origination, retention and servicing of residential 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 31: Consumer Lending

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Income Statement Data				
Net interest income	**$ 63**	62	**185**	187
Provision for loan and lease losses	**12**	11	**32**	33
Noninterest income:				
Mortgage banking net revenue	**64**	69	**214**	268
Other noninterest income	**7**	7	**20**	59
Noninterest expense:				
Personnel costs	**48**	47	**147**	139
Other noninterest expense	**69**	60	**211**	186
Income before income taxes	**5**	20	**29**	156
Applicable income tax expense	**2**	7	**11**	56
Net income	**$ 3**	13	**18**	100
Average Balance Sheet Data				
Residential mortgage loans, including held for sale	**$ 10,795**	9,393	**10,304**	9,089
Home equity	**348**	414	**365**	433
Automobile loans	**9,967**	11,381	**10,366**	11,401
Other consumer loans, including held for sale	-	3	-	14

Net income was $3 million for the three months ended September 30, 2016 compared to net income of $13 million for the three months ended September 30, 2015. Net income was $18 million for the nine months ended September 30, 2016 compared to net income of $100 million for the nine months ended September 30, 2015. The decrease for both periods was primarily driven by a decrease in noninterest income as well as an increase in noninterest expense.

Net interest income increased $1 million and decreased $2 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2016 compared to the same period in the prior year was primarily driven by an increase in FTP credit rates on demand deposits. The decrease for the nine months ended September 30, 2016 compared to the same period in the prior year was primarily driven by an increase in FTP charge rates on loans and leases partially offset by an increase

in FTP credit rates on demand deposits. Net interest income for both periods was impacted by an increase in average residential mortgage loan balances partially offset by a decline in average automobile loan balances.

Provision for loan and lease losses increased $1 million for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to an increase in net charge-offs on automobile loans partially offset by a decline in net charge-offs on residential mortgage loans and home equity loans. The provision for loan and lease losses decreased $1 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to a decline in net charge-offs on residential mortgage loans and home equity loans partially offset by an increase in net charge-offs on automobile loans. Net charge-offs as a percent of average portfolio loans and leases increased to 23 bps for the three months ended September 30, 2016 compared to 22 bps for the same period in the prior year and decreased to 21 bps for the nine months ended September 30, 2016 compared to 22 bps for the same period in the prior year.

Noninterest income decreased $5 million and $93 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for the three months ended September 30, 2016 was driven by a decrease in mortgage banking net revenue of $5 million from the same period in the prior year primarily driven by a $20 million decrease in net mortgage servicing revenue partially offset by an increase of $15 million in mortgage origination fees and gains on loan sales. The decrease for the nine months ended September 30, 2016 was driven by decreases in mortgage banking net revenue and other noninterest income. Mortgage banking net revenue decreased $54 million for the nine months ended September 30, 2016 compared to the same period in the prior year primarily driven by a $76 million decrease in net mortgage servicing revenue partially offset by a $22 million increase in mortgage origination fees and gains on loan sales. Refer to the Noninterest Income subsection of the Statements of Income Analysis of MD&A for additional information on the fluctuations in mortgage banking net revenue. Other noninterest income decreased $39 million for the nine months ended September 30, 2016 from the same period in the prior year primarily due to a $37 million gain on the sale of residential mortgage loans held for sale classified as TDRs in the first quarter of 2015.

Noninterest expense increased $10 million and $33 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year driven by increases in other noninterest expense and personnel costs. Other noninterest expense increased $9 million and $25 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily driven by increases in operational losses and corporate overhead allocations. Personnel costs increased $1 million and $8 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily driven by increases in base compensation and variable compensation.

Table of Contents

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

Average consumer loans and leases decreased $81 million and increased $98 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. Average residential mortgage loans, including held for sale, increased $1.4 billion and $1.2 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily driven by the continued retention of certain conforming ARMs and certain other fixed-rate loans. Average automobile loans decreased $1.4 billion and $1.0 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year as payoffs exceeded new loan production.

Wealth and Asset Management

Wealth and Asset Management provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. Wealth and Asset Management 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 Wealth and Asset Management segment:

TABLE 32: Wealth and Asset Management

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Income Statement Data				
Net interest income	**$ 40**	33	**127**	91
Provision for loan and lease losses	**-**	-	**1**	3
Noninterest income:				
Wealth and asset management revenue	**98**	100	**294**	306
Other noninterest income	**1**	2	**8**	9
Noninterest expense:				
Personnel costs	**41**	42	**127**	127
Other noninterest expense	**62**	70	**190**	215
Income before income taxes	**36**	23	**111**	61
Applicable income tax expense	**13**	9	**38**	21
Net income	**$ 23**	14	**73**	40
Average Balance Sheet Data				
Loans and leases, including held for sale	**$ 3,148**	2,982	**3,109**	2,732
Core deposits	**8,159**	8,944	**8,459**	9,489

Net income was $23 million for the three months ended September 30, 2016 compared to net income of $14 million for the same period in the prior year. Net income was $73 million for the nine months ended September 30, 2016 compared to $40 million for the nine months ended September 30, 2015. The increases for both periods were driven primarily by increases in net interest income as well as decreases in noninterest expense partially offset by decreases in noninterest income.

Net interest income increased $7 million and $36 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods was primarily due to an increase in FTP credit rates on core deposits and an increase in interest income on loans and leases driven by an increase in average balances and higher yields on average commercial and industrial loans and average other consumer loans and leases. The increase in net interest income for both periods was partially offset by an increase in FTP charge rates on loans and leases and the increase for the nine months ended was also partially offset by an increase in FTP charges due to an increase in average loan balances.

Provision for loan and lease losses was flat and decreased $2 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year.

Noninterest income decreased $3 million and $13 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for both periods was primarily due to a $2 million and $12 million decrease in wealth and asset management revenue for the three and nine months ended September 30, 2016, respectively, driven by a decrease of $4 million and $14 million in transactional securities and brokerage fees as a result of lower sales and trading volume. The decrease for both periods was partially offset by a $2 million increase in private client service fees and institutional fees compared to the same periods in the prior year.

Noninterest expense decreased $9 million and $25 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The decrease for both periods was primarily driven by decreases in other noninterest expense of $8 million and $25 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to a decrease in corporate overhead allocations partially offset by an increase in operational losses.

Average loans and leases increased $166 million and $377 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to increases in average residential mortgage loans and average other consumer loans driven by increases in new loan origination activity.

Table of Contents

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

Average core deposits decreased $785 million and $1.0 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to a decline in average interest checking balances partially offset by an increase in average savings and money market deposits.

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, unallocated provision expense 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, 2016 was a negative $66 million compared to negative $2 million for the same period in the prior year. Net interest income for the nine months ended September 30, 2016 was a negative $239 million compared to net interest income of $3 million for the same period in the prior year. The decreases for both periods were primarily driven by an increase in FTP credits on deposits allocated to business segments due to increases in FTP credit rates and average deposits as well as an increase in interest expense on long-term debt. The decreases in net interest income were partially offset by an increase in interest income on taxable securities and an increase in the benefit related to the FTP charges on loans and leases. The provision for loan and lease losses for the three and nine months ended September 30, 2016 was $52 million and $33 million, respectively, compared to a benefit of $87 million and $118 million for the three and nine months ended September 30, 2015, respectively, due to decreases in the allocation of provision expense to the business segments.

Noninterest income increased $164 million and $116 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods included the impact of a $280 million gain recognized during the third quarter of 2016 from the termination and settlement of gross cash flows from existing Vantiv, Inc. TRAs and the expected obligation to terminate and settle the remaining Vantiv, Inc. TRA cash flows upon the exercise of put or call options. Additionally, equity method earnings from the Bancorp s interest in Vantiv Holding, LLC increased $4 million and $9 million compared to the three and nine months ended September 30, 2015, respectively. The increase in noninterest income was partially offset by negative valuation adjustments related to the Visa total return swap of $12 million and $61 million for the three and nine months ended September 30, 2016, respectively, compared with $8 million and $27 million, respectively, for the same periods in the prior year. In addition, the negative valuation adjustment on the stock warrant associated with Vantiv Holding, LLC was $2 million for the three months ended September 30, 2016 compared to the positive valuation adjustment of $130 million during the three months ended September 30, 2015. The positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC were $64 million for the nine months ended September 30, 2016 compared to the positive valuation adjustments of $215 million during the nine months ended September 30, 2015. The increase in noninterest income for the three and nine months ended September 30, 2016 also included a gain of $11 million on the sale-leaseback of an office complex during the third quarter of 2016.

Noninterest expense was $35 million and $79 million for the three and nine months ended September 30, 2016, respectively, compared to $24 million and $23 million for the same periods in the prior year. The increase for both periods was primarily due to increases in personnel costs and the provision for the reserve for unfunded commitments

partially offset by an increase in 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. Management within the lines of business and support functions assess and manage risks associated with their activities and determine if actions need to be taken to strengthen risk management or reduce risk given their risk profile. They are responsible for considering risk when making business decisions and for integrating risk management into business processes. 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 5% 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 current assessments of each of the eight risk types relative to the established tolerance. Information supporting these assessments, including policy limits, key risk indicators and qualitative factors, is also reported to the Risk and Compliance Committee of the Board. Any results outside of tolerance require the development of an action plan that describes actions to be taken to return the measure to within the 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:

ERM 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;

Credit Risk Management is responsible for overseeing the safety and soundness of the commercial and consumer loan portfolio within an independent portfolio management framework that supports the Bancorp s loan growth strategies and underwriting practices, ensuring portfolio optimization and appropriate risk controls. Credit Risk Management is also responsible for the economic capital program and quantitative analytics to support the commercial portfolio and risk rating models, 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 and consumer 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 vendors and information security to ensure 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 within the Capital Markets groups and monitoring liquidity, interest rate risk and risk tolerances resulting from management of Fifth Third s overall balance sheet;

Compliance Risk Management provides independent oversight to ensure that an enterprise-wide framework, including processes and procedures, are in place to comply with applicable laws, regulations, rules and other regulatory requirements; internal policies and procedures; and principles of integrity and fair dealing applicable to the Bancorp s activities and functions. The Bancorp focuses on managing regulatory compliance risk in accordance with the Bancorp s integrated risk management framework, which ensures consistent processes for identifying, assessing, managing, monitoring and reporting risks; 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. 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.

Table of Contents

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

The primary committee responsible for the oversight of risk management is the ERMC. Committees accountable to the ERMC, 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 ERMC oversee the ALLL, capital, model risk and regulatory change management functions. There is also a risk assessment process applicable to every line of business to ensure an appropriate standard readiness assessment is performed before launching a new or changing 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 independent and 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 nonaccrual loan 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 portfolio loans and leases:

TABLE 33: Potential Problem Portfolio Loans and Leases

As of September 30, 2016 ($ in millions)		Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial loans	**$**	**1,186**	**1,188**	**1,829**
Commercial mortgage loans		**115**	**115**	**117**
Commercial leases		**36**	**36**	**36**
Total potential problem portfolio loans and leases	**$**	**1,337**	**1,339**	**1,982**

TABLE 34: Potential Problem Portfolio Loans and Leases

As of December 31, 2015 ($ in millions)		Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial loans	$	1,383	1,384	1,922
Commercial mortgage loans		170	171	172
Commercial construction loans		6	6	7
Commercial leases		36	36	39
Total potential problem portfolio loans and leases	$	1,595	1,597	2,140

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 assessing a borrower s creditworthiness. 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 evaluate the use of modified dual risk ratings for purposes of determining the Bancorp s ALLL as part of the Bancorp s adoption of ASU 2016-13 *Measurement of Credit Losses on Financial Instruments*, which will be effective for the Bancorp on January 1, 2020. 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)

Economic Overview

Economic growth continues to improve, and GDP is expected to maintain its modest expansionary pattern. The U.S. job market and wages are slowly but steadily improving. Household spending continues to be the strongest driver of the U.S. economy. Tepid business investment and lackluster global economic growth continue to be the weights keeping economic growth in check. Inflation continues to run below the FRB s stated objective, but has increased over the past several months. Energy prices and the dollar have stabilized and are moving in a pattern that may continue the improvement in inflation and manufacturing. Housing prices have largely stabilized and are increasing in many markets. However, overall current economic and competitive conditions are causing weaker than desired qualified loan growth that combined with a weakness in global economic conditions and a relatively low interest rate environment, may directly or indirectly impact the Bancorp s growth and profitability. In the U.S., loan growth has continued to slow. Economic weakness in developed economies continues, growth has slowed in China and other developing economies and the British vote to exit the European Union has created market volatility and additional economic uncertainty. The FRB noted asymmetric risks to the downside in their latest assessment of the risks to their economic outlook. With regard to commercial real estate, the credit market has become somewhat more selective even though market data and vacancies remain positive.

Commercial Portfolio

The Bancorp s credit risk management strategy seeks to minimize 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 Bancorp provides loans to a variety of customers ranging from large multi-national firms to middle market businesses, sole proprietors and high net worth individuals. The origination policies for commercial and industrial loans outline the risks and underwriting requirements for loans to businesses in various industries. Included in the policies are maturity and amortization terms, collateral and leverage requirements, cash flow coverage measures and hold limits. The Bancorp aligns credit and sales teams with specific industry expertise to better monitor and manage different industry segments of the portfolio.

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.

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 35: Commercial Mortgage Loans Outstanding by LTV, Loans Greater Than $1 Million

As of September 30, 2016 ($ in millions)		LTV > 100%	LTV 80-100%	LTV < 80%
Commercial mortgage owner-occupied loans	**$**	**114**	**193**	**1,997**
Commercial mortgage nonowner-occupied loans		**106**	**166**	**2,298**
Total	**$**	**220**	**359**	**4,295**

TABLE 36: Commercial Mortgage Loans Outstanding by LTV, Loans Greater Than $1 Million

As of December 31, 2015 ($ in millions)		LTV > 100%	LTV 80-100%	LTV < 80%
Commercial mortgage owner-occupied loans	$	119	216	2,063
Commercial mortgage nonowner-occupied loans		120	194	2,032
Total	$	239	410	4,095

Table of Contents

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

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 37: Commercial Loan and Lease Portfolio (excluding loans held for sale)

		September 30, 2016			December 31, 2015		
($ in millions)		Outstanding	Exposure	Nonaccrual	Outstanding	Exposure	Nonaccrual
By Industry:							
Manufacturing	**$**	**10,524**	**20,259**	**52**	10,572	20,422	70
Real estate		**7,207**	**11,816**	**24**	6,494	10,293	40
Financial services and insurance		**6,053**	**12,176**	**3**	5,896	13,021	3
Healthcare		**4,660**	**6,608**	**34**	4,676	6,879	22
Business services		**4,513**	**6,922**	**50**	4,471	6,765	96
Retail trade		**4,032**	**7,649**	**13**	3,764	7,391	8
Wholesale trade		**3,759**	**6,596**	**19**	4,082	7,254	23
Transportation and warehousing		**3,134**	**4,555**	**3**	3,111	4,619	1
Communication and information		**3,119**	**5,091**	**1**	2,913	5,052	2
Accommodation and food		**2,917**	**4,596**	**5**	2,507	4,104	6
Construction		**1,869**	**3,372**	**11**	1,871	3,403	8
Entertainment and recreation		**1,626**	**2,900**	**3**	1,210	2,066	4
Mining		**1,330**	**2,376**	**211**	1,499	2,695	36
Utilities		**1,123**	**2,748**	**-**	1,217	2,854	-
Other services		**799**	**1,025**	**24**	864	1,188	10
Public administration		**467**	**513**	**-**	495	562	-
Agribusiness		**265**	**423**	**2**	368	527	4
Individuals		**73**	**97**	**1**	139	187	2
Other		**13**	**18**	**4**	7	6	6
Total	**$**	**57,483**	**99,740**	**460** *(a)*	56,156	99,288	341
By Loan Size:							
Less than $200,000		**1 %**	**1**	**4**	1	1	7
$200,000 - $1 million		**3**	**3**	**5**	4	3	10
$1 million - $5 million		**9**	**7**	**20**	10	8	25
$5 million - $10 million		**7**	**6**	**21**	8	7	25
$10 million - $25 million		**23**	**21**	**50**	24	21	15
Greater than $25 million		**57**	**62**	**-**	53	60	18
Total		**100 %**	**100**	**100**	100	100	100
By State:							
Ohio		**15 %**	**16**	**6**	16	17	8
Florida		**8**	**7**	**5**	8	7	12
Michigan		**7**	**7**	**6**	8	7	9

Illinois	**7**	**7**	**7**	7	8	20
Indiana	**4**	**5**	**4**	5	5	4
North Carolina	**4**	**4**	**1**	4	4	1
Tennessee	**3**	**3**	**-**	3	3	-
Kentucky	**3**	**3**	**2**	3	3	1
Pennsylvania	**3**	**3**	**7**	3	3	2
All other states	**46**	**45**	**62**	43	43	43
Total	**100 %**	**100**	**100**	100	100	100

*(a) Nonaccrual portfolio loans and leases at **September 30, 2016** were adjusted by **$15** to reflect the identification of certain commercial and industrial loans as nonaccrual after the Bancorp s Form 8-K was filed on October 20, 2016.*

The Bancorp s non-power producing energy and nonowner-occupied commercial real estate portfolios have been identified by the Bancorp as 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.

Due to the sensitivity of the non-power producing energy portfolio to downward movements in oil prices, the Bancorp saw a migration into criticized classifications during 2015 through the second quarter of 2016. However, in the third quarter of 2016, this portfolio has stabilized with some signs of minor improvement. The reserve-based energy loans that the Bancorp holds are senior secured loans with a borrowing base that is re-determined on a semi-annual basis.

Table of Contents

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

The following tables provide an analysis of the non-power producing energy loan portfolio:

TABLE 38: Non-Power Producing Energy Portfolio

As of September 30, 2016 ($ in millions)								**Net Charge-offs for September 30, 2016**	
	Pass	Criticized	Outstanding	Exposure	90 Days Past Due	Nonaccrual		Three Months Ended	Nine Months Ended
Reserve-based lending	**$ 283**	**378**	**661**	**1,154**	**-**	**133**		**-**	**-**
Midstream	**292**	**-**	**292**	**980**	**-**	**-**		**-**	**-**
Oil field services	**129**	**81**	**210**	**370**	**-**	**36**		**8**	**19**
Oil and gas	**34**	**79**	**113**	**422**	**-**	**40**		**1**	**1**
Refining	**90**	**-**	**90**	**568**	**-**	**-**		**-**	**-**
Total	**$ 828**	**538**	**1,366**	**3,494**	**-**	**209**	*(a)*	**9**	**20**

*(a) Nonaccrual portfolio loans and leases at **September 30, 2016** were adjusted by **$15** to reflect the identification of certain commercial and industrial loans as nonaccrual after the Bancorp s Form 8-K was filed on October 20, 2016.*

TABLE 39: Non-Power Producing Energy Portfolio

As of September 30, 2015 ($ in millions)							Net Charge-offs for September 30, 2015	
	Pass	Criticized	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
Reserve-based lending	$ 407	347	754	1,318	-	-	-	-
Midstream	228	-	228	960	-	-	-	-
Oil field services	209	100	309	477	-	-	-	-
Oil and gas	93	41	134	522	-	1	-	-
Refining	85	1	86	482	-	-	-	-
Total	$ 1,022	489	1,511	3,759	-	1	-	-

The following tables provide an analysis of nonowner-occupied commercial real estate loans (excluding loans held for sale):

TABLE 40: Nonowner-Occupied Commercial Real Estate (excluding loans held for sale) *(a)*

As of September 30, 2016 ($ in millions)			**Net Charge-offs (Recoveries) for September 30, 2016**
($ in millions)	Outstanding	Exposure	Nonaccrual

			90 Days Past Due		Three Months Ended	Nine Months Ended
By State:						
Ohio	**$ 1,350**	**1,881**	**-**	**4**	**(1)**	**(1)**
Florida	**832**	**1,253**	**-**	**1**	**-**	**1**
Illinois	**714**	**1,271**	**-**	**1**	**-**	**-**
Michigan	**583**	**646**	**-**	**1**	**1**	**2**
North Carolina	**528**	**822**	**-**	**-**	**-**	**1**
Indiana	**255**	**438**	**-**	**-**	**-**	**-**
All other states	**2,797**	**4,916**	**-**	**3**	**-**	**3**
Total	**$ 7,059**	**11,227**	**-**	**10**	**-**	**6**

(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 41: Nonowner-Occupied Commercial Real Estate (excluding loans held for sale)[(a)]

As of September 30, 2015 ($ in millions)			90 Days		Net Charge-offs (Recoveries) for September 30, 2015	
	Outstanding	Exposure	Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:						
Ohio	$ 1,319	1,600	-	7	-	(1)
Florida	636	1,002	-	10	-	3
Illinois	678	1,082	-	6	-	-
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 of Contents

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

Consumer Portfolio

Consumer credit risk management utilizes a framework that encompasses consistent processes for identifying, assessing, managing, monitoring, and reporting credit risk. These processes are supported by a credit risk governance structure that includes Board oversight, policies, risk limits, and risk committees.

The Bancorp s consumer portfolio is materially comprised of four categories of loans: residential mortgage loans, home equity loans, automobile loans and credit card. The Bancorp has identified certain categories within these four categories of loans 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. Among consumer portfolios, legacy underwritten residential mortgage and brokered home equity portfolios exhibited the most stress during the credit crisis. As of September 30, 2016, consumer real estate loans, consisting of residential mortgage loans and home equity loans, originated from 2005 through 2008 represent approximately 18% of the consumer real estate portfolio. These loans accounted for 55% and 53% of total consumer real estate secured losses for the three and nine months ended September 30, 2016, respectively. Current loss rates in the residential mortgage and home equity portfolios are below pre-crisis levels. In addition to the consumer real estate portfolio, credit risk management continues to closely monitor the automobile portfolio performance. Increased competition in the marketplace has led to industry-wide loosening of underwriting guidelines. Fifth Third actively manages the automobile portfolio through concentration limits, which mitigates credit risk through limiting the exposure to lower FICO scores, higher advance rates and extended term originations.

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-rate and ARM loans. Resets of rates on ARMs are not expected to have a material impact on credit costs in the current interest rate environment, as approximately $805 million of ARM loans will have rate resets during the next twelve months. Of these resets, 89% are expected to experience an increase in rate, with an average increase of approximately one third 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.

Portfolio residential mortgage loans from 2010 and later vintages represented 87% of the portfolio as of September 30, 2016 and had a weighted-average LTV of 72% and a weighted-average origination FICO of 759.

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

TABLE 42: Residential Mortgage Portfolio Loans by LTV at Origination

	September 30, 2016		December 31, 2015	
($ in millions)	Outstanding	Weighted-Average LTV	Outstanding	Weighted-Average LTV
LTV £ 80%	**$ 10,984**	**66.0 %**	$ 10,198	65.6 %
LTV > 80%, with mortgage insurance	**1,296**	**93.4**	1,300	93.3
LTV > 80%, no mortgage insurance	**2,363**	**95.8**	2,218	96.0
Total	**$ 14,643**	**73.5 %**	$ 13,716	73.4 %

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

TABLE 43: Residential Mortgage Portfolio Loans, LTV Greater than 80%, No Mortgage Insurance

As of September 30, 2016 ($ in millions)				**Net Charge-offs for September 30, 2016**	
	Outstanding	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:					
Ohio	**$ 561**	**2**	**3**	**1**	**2**
Illinois	**442**	**1**	**1**	**-**	**-**
Florida	**328**	**1**	**2**	**-**	**-**
Michigan	**291**	**-**	**1**	**-**	**1**
Indiana	**162**	**-**	**1**	**-**	**-**
North Carolina	**118**	**-**	**1**	**-**	**-**
Kentucky	**88**	**1**	**-**	**-**	**-**
All other states	**373**	**-**	**-**	**-**	**-**
Total	**$ 2,363**	**5**	**9**	**1**	**3**

Table of Contents

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

TABLE 44: Residential Mortgage Portfolio Loans, LTV Greater than 80%, No Mortgage Insurance

As of September 30, 2015 ($ in millions)	Outstanding	90 Days Past Due	Nonaccrual	Net Charge-offs for September 30, 2015 Three Months Ended	Nine Months Ended
By State:					
Ohio	$ 530	1	4	1	3
Illinois	348	-	1	-	1
Florida	264	-	5	-	-
Michigan	270	1	1	1	1
Indiana	139	-	1	-	-
North Carolina	110	-	1	-	-
Kentucky	81	1	-	-	-
All other states	306	1	1	-	-
Total	$ 2,048	4	14	2	5

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. Peak maturity years for the balloon home equity lines of credit are 2025 to 2028 and approximately 25% of the balances mature before 2025.

The aging of 2008 and prior vintages of home equity loans has contributed to declining losses over the past twelve months. These vintages represented 69% of the balances at September 30, 2016 and 93% and 95% of the losses during the three and nine months ended September 30, 2016, respectively, compared to 74% of the balances at September 30, 2015 and 97% and 96% of the losses during the three and nine months ended September 30, 2015, respectively.

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 and refreshed FICO score trends. The qualitative factors include adjustments for changes in policies or procedures in underwriting, monitoring or collections, economic conditions, portfolio mix, lending and risk management personnel, results of internal audit and quality control reviews, collateral values and geographic concentrations. The Bancorp considers home price index trends when determining the collateral value 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 $2.4 billion and $5.4 billion, respectively, as of September 30, 2016. Of the total $7.9 billion of outstanding home equity loans:

- 86% reside within the Bancorp s Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois as of September 30, 2016;
- 36% are in senior lien positions and 64% are in junior lien positions at September 30, 2016;
- Over 80% of non-delinquent borrowers made at least one payment greater than the minimum payment during the three months ended September 30, 2016; and
- The portfolio had an average refreshed FICO score of 742 at September 30, 2016.

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 subsection of the Risk Management 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 45: Home Equity Portfolio Loans Outstanding by Refreshed FICO Score

	September 30, 2016		December 31, 2015	
($ in millions)	Outstanding	% of Total	Outstanding	% of Total
Senior Liens:				
FICO £ 659	**$ 267**	**3 %**	$ 279	3 %
FICO 660-719	**432**	**6**	443	6
FICO ³ 720	**2,144**	**27**	2,210	26
Total senior liens	**2,843**	**36**	2,932	35
Junior Liens:				
FICO £ 659	**653**	**8**	705	9
FICO 660-719	**1,005**	**13**	1,083	13
FICO ³ 720	**3,363**	**43**	3,581	43
Total junior liens	**5,021**	**64**	5,369	65
Total	**$ 7,864**	**100 %**	$ 8,301	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 46: Home Equity Portfolio Loans Outstanding by LTV at Origination

	September 30, 2016		December 31, 2015	
($ in millions)	Outstanding	Weighted-Average LTV	Outstanding	Weighted-Average LTV
Senior Liens:				
LTV £ 80%	**$ 2,494**	**55.2 %**	$ 2,557	55.1 %
LTV > 80%	**349**	**89.1**	375	89.1
Total senior liens	**2,843**	**59.6**	2,932	59.7
Junior Liens:				
LTV £ 80%	**2,950**	**67.6**	3,088	67.6
LTV > 80%	**2,071**	**90.7**	2,281	90.9
Total junior liens	**5,021**	**78.8**	5,369	79.2
Total	**$ 7,864**	**71.3 %**	$ 8,301	71.8 %

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

TABLE 47: Home Equity Portfolio Loans Outstanding with a LTV Greater than 80%

As of September 30, 2016 ($ in millions)				**Net Charge-offs for September 30, 2016**		
	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:						
Ohio	**$ 1,036**	**1,816**	**-**	**10**	**1**	**4**
Michigan	**456**	**694**	**-**	**6**	**1**	**2**
Illinois	**274**	**415**	**-**	**4**	**1**	**2**
Indiana	**194**	**315**	**-**	**3**	**-**	**1**
Kentucky	**180**	**308**	**-**	**1**	**1**	**1**
Florida	**86**	**118**	**-**	**2**	**-**	**-**
All other states	**194**	**273**	**-**	**4**	**-**	**1**
Total	**$ 2,420**	**3,939**	**-**	**30**	**4**	**11**

TABLE 48: Home Equity Portfolio Loans Outstanding with a LTV Greater than 80%

As of September 30, 2015 ($ in millions)				Net Charge-offs for September 30, 2015		
	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:						
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)

Automobile portfolio

The Bancorp s automobile portfolio balances have declined since December 31, 2015 through targeting more profitable risk-adjusted returns. As a result, the concentration of lower FICO (<690) origination balances have increased with overall credit quality remaining within targeted credit risk tolerance. All concentration and guideline changes are monitored monthly to ensure alignment with original credit performance and return projections.

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

TABLE 49: Automobile Portfolio Loans Outstanding by FICO Score at Origination

	September 30, 2016		December 31, 2015	
($ in millions)	Outstanding	% of Total	Outstanding	% of Total
FICO £ 690	**$ 1,886**	**18 %**	$ 1,962	17 %
FICO > 690	**8,463**	**82**	9,531	83
Total	**$ 10,349**	**100 %**	$ 11,493	100 %

The automobile portfolio is characterized by direct and indirect lending products to consumers. As of September 30, 2016, 48% of the automobile loan portfolio is comprised of loans collateralized by new automobiles. It is a common industry 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 50: Automobile Portfolio Loans Outstanding by LTV at Origination

	September 30, 2016		December 31, 2015	
($ in millions)	Outstanding	Weighted-Average LTV	Outstanding	Weighted-Average LTV
LTV £ 100%	**$ 6,916**	**81.9 %**	$ 7,740	81.7 %
LTV > 100%	**3,433**	**111.5**	3,753	111.3
Total	**$ 10,349**	**92.2 %**	$ 11,493	91.7 %

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

TABLE 51: Automobile Portfolio Loans Outstanding with a LTV Greater than 100%
As of ($ in millions)

	Outstanding	90 Days Past Due and Accruing	Nonaccrual	Net Charge-offs for the Three Months Ended	Net Charge-offs for the Nine Months Ended
September 30, 2016	**$ 3,433**	**5**	**2**	**7**	**17**
September 30, 2015	3,817	5	1	5	14

Credit card portfolio

The credit card portfolio consists of predominately prime accounts with 97% of loan balances existing within the Bancorp s footprint as of both September 30, 2016 and December 31, 2015. At September 30, 2016 and December 31, 2015, 78% and 80%, respectively, of the outstanding balances were originated through branch based relationships with the remainder coming from direct mail campaigns and online acquisitions.

The following table provides an analysis of credit card portfolio loans outstanding disaggregated based upon FICO score as of:

TABLE 52: Credit Card Portfolio Loans Outstanding by FICO Score at Origination

	September 30, 2016		December 31, 2015	
($ in millions)	Outstanding	% of Total	Outstanding	% of Total
FICO £ 659	**$ 44**	**2 %**	$ 45	2 %
FICO 660-719	**501**	**23**	506	22
FICO > 720	**1,624**	**75**	1,708	76
Total	**$ 2,169**	**100 %**	$ 2,259	100 %

HAMP and HARP Programs

For residential mortgage loans serviced for FHLMC and FNMA, the Bancorp participates in the HAMP and HARP programs. For loans refinanced under the HARP program, the Bancorp strictly adheres to the underwriting requirements of the program. 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 and these loans 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 loans. As of September 30, 2016, repurchased loans restructured or refinanced under these programs were immaterial to the Condensed Consolidated Financial Statements.

Table of Contents

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

Additionally, as of September 30, 2016, and December 31, 2015, $25 million and $14 million, respectively, of loans refinanced under HARP were included in loans held for sale in the Condensed Consolidated Balance Sheets. For the three and nine months ended September 30, 2016 the Bancorp recognized $2 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 programs compared to $1 million and $5 million for the same periods in the prior year.

European Exposure

The Bancorp has no direct sovereign exposure to any European nation as of September 30, 2016. 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, guarantees, banker s acceptances 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 $3.0 billion and funded exposure was $1.5 billion as of September 30, 2016. Additionally, the Bancorp was within its established country exposure limits for all European countries.

The Bancorp has been closely monitoring the Brexit situation and its potential impact on the Bancorp. The Bancorp s United Kingdom exposure is shown in the following table.

The following table provides detail about the Bancorp s exposure to all European domiciled and U.S. subsidiaries of European businesses as well as European financial institutions as of September 30, 2016:

TABLE 53: European Exposure

	Sovereigns		Financial Institutions		Non-Financial Institutions		Total	
($ in millions)	Total Exposure[a]	Funded Exposure[a]	Total Exposure[a]	Funded Exposure	Total Exposure[a]	Funded Exposure	Total Exposure[a]	Funded Exposure
Peripheral Europe[b]	$ -	-	-	-	199	86	199	86
Other Eurozone[c]	-	-	345	132	1,528	840	1,873	972
Total Eurozone	$ -	-	345	132	1,727	926	2,072	1,058
United Kingdom	-	-	134	52	671	340	805	392
Other Europe[d]	-	-	3	3	125	45	128	48
Total Europe	$ -	-	482	187	2,523	1,311	3,005	1,498

(a) Total exposure includes funded exposure and unfunded commitments.
(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 Switzerland, Norway and Sweden).

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 54. Refer to the nonaccrual loans and leases section of Note 1 in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015 for additional delinquency and nonperforming asset information.

Nonperforming assets were $798 million at September 30, 2016 compared to $659 million at December 31, 2015. At September 30, 2016, $100 million of nonaccrual loans were held for sale, compared to $12 million at December 31, 2015.

Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO were 0.75% as of September 30, 2016 compared to 0.70% as of December 31, 2015. Nonaccrual loans and leases secured by real estate were 27% of nonaccrual loans and leases as of September 30, 2016 compared to 43% as of December 31, 2015.

Commercial portfolio nonaccrual loans and leases were $460 million at September 30, 2016, an increase of $119 million from December 31, 2015 and included a $228 million increase associated with the reserve-based lending energy portfolio and the impact of low oil prices during the nine months ended 2016.

Consumer portfolio nonaccrual loans and leases were $141 million at September 30, 2016, a decrease of $24 million from December 31, 2015. Geographical market conditions continue to be a large driver of nonaccrual activity as Florida properties represent approximately 12% of residential mortgage balances, but represent 23% of nonaccrual loans at September 30, 2016. Refer to Tables 55 and 56 for rollforwards of the portfolio nonaccrual loans and leases.

OREO and other repossessed property was $97 million at September 30, 2016, compared to $141 million at December 31, 2015. The Bancorp recognized $5 million and $3 million in losses on the sale or write-down of OREO properties for the three months ended September 30, 2016 and 2015, respectively, and $14 million and $16 million in losses on the sale or write-down of OREO properties for the nine months ended September 30, 2016 and 2015, respectively.

For the three and nine months ended September 30, 2016, approximately $10 million and $32 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.

Table of Contents

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

For the three and nine months ended September 30, 2015 approximately $8 million and $26 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 54: Summary of Nonperforming Assets and Delinquent Loans

As of ($ in millions)		**September 30, 2016**		December 31, 2015
Nonaccrual portfolio loans and leases:				
Commercial and industrial loans	**$**	**235**[d]		82
Commercial mortgage loans		**31**		56
Residential mortgage loans		**19**		28
Home equity		**59**		62
Nonaccrual portfolio restructured loans and leases:				
Commercial and industrial loans		**174**		177
Commercial mortgage loans[c]		**17**		25
Commercial leases		**3**		1
Residential mortgage loans		**13**		23
Home equity		**19**		17
Automobile loans		**2**		2
Credit card		**29**		33
Total nonaccrual portfolio loans and leases[b]		**601**[d]		506
OREO and other repossessed property		**97**		141
Total nonperforming portfolio assets		**698**[d]		647
Nonaccrual loans held for sale		**91**		1
Nonaccrual restructured loans held for sale		**9**		11
Total nonperforming assets	**$**	**798**[d]		659
Loans and leases 90 days past due and still accruing				
Commercial and industrial loans	**$**	**7**		7
Residential mortgage loans[a]		**43**		40
Automobile loans		**8**		10
Credit card		**18**		18
Total loans and leases 90 days past due and still accruing	**$**	**76**		75
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO		**0.75**	**%**	0.70
ALLL as a percent of nonperforming portfolio assets		**182**		197

*(a) Information for all periods presented excludes advances made pursuant to servicing agreements for GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the VA. These advances were **$287** as of **September 30, 2016** and $335 as of December 31, 2015. The Bancorp recognized **$2** and **$5** on these insured or guaranteed loans for the three and nine months ended **September 30, 2016**, respectively, and $2 and $6 for the three and nine months ended September 30, 2015, respectively.*

*(b) Includes **$4** and $6 of nonaccrual government insured commercial loans whose repayments are insured by the SBA at **September 30, 2016** and December 31, 2015, respectively, and **$1** and $2 of restructured nonaccrual government insured commercial loans at **September 30, 2016** and December 31, 2015, respectively.*

*(c) Excludes **$20** of restructured nonaccrual loans at both **September 30, 2016** and December 31, 2015 associated with a consolidated VIE in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party.*

*(d) Nonaccrual portfolio loans and leases at **September 30, 2016** were adjusted by **$15** to reflect the identification of certain commercial and industrial loans as nonaccrual after the Bancorp s Form 8-K was filed on October 20, 2016.*

The following tables provide a rollforward of portfolio nonaccrual loans and leases, by portfolio segment:

TABLE 55: Rollforward of Portfolio Nonaccrual Loans and Leases

For the nine months ended September 30, 2016			Residential		
($ in millions)		Commercial	Mortgage	Consumer	Total
Balance, beginning of period	$	341	51	114	506
Transfers to nonaccrual status		**555** [(a)]	**39**	**117**	**711**
Transfers to accrual status		**(9)**	**(37)**	**(55)**	**(101)**
Transfers to held for sale		**(39)**	**-**	**-**	**(39)**
Loans sold from portfolio		**(11)**	**-**	**-**	**(11)**
Loan paydowns/payoffs		**(203)**	**(6)**	**(24)**	**(233)**
Transfers to OREO		**(5)**	**(12)**	**(8)**	**(25)**
Charge-offs		**(192)**	**(3)**	**(35)**	**(230)**
Draws/other extensions of credit		**23**	**-**	**-**	**23**
Balance, end of period	**$**	**460** [(a)]	**32**	**109**	**601**

*(a) Nonaccrual portfolio loans and leases at **September 30, 2016** were adjusted by **$15** to reflect the identification of certain commercial and industrial loans as nonaccrual after the Bancorp s Form 8-K was filed on October 20, 2016.*

Table of Contents

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

TABLE 56: Rollforward of Portfolio Nonaccrual Loans and Leases

For the nine months ended September 30, 2015 ($ in millions)	Commercial	Residential Mortgage	Consumer	Total
Balance, beginning of period	$ 367	77	135	579
Transfers to nonaccrual status	349	49	115	513
Transfers to accrual status	(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
Balance, end of period	$ 286	55	117	458

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 $972 million and $979 million at September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, the percent of restructured residential mortgage loans, home equity loans and credit card loans that were past due 30 days or more from their modified terms were 28%, 11% and 28%, respectively.

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

TABLE 57: Accruing and Nonaccruing Portfolio TDRs

		Accruing		
As of September 30, 2016 ($ in millions)	Current		Nonaccruing	Total

			30-89 Days Past Due	90 Days or More Past Due		
Commercial loans[(b)(c)]	**$**	**405**	**3**	**-**	**194**	**602**
Residential mortgage loans[(a)]		**470**	**58**	**110**	**13**	**651**
Home equity		**281**	**14**	**-**	**19**	**314**
Automobile loans		**14**	**-**	**-**	**2**	**16**
Credit card		**21**	**4**	**-**	**29**	**54**
Total	**$**	**1,191**	**79**	**110**	**257**	**1,637**

*(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, 2016**, these advances represented **$236** of current loans, **$48** of 30-89 days past due loans and **$96** of 90 days or more past due loans.*

*(b) As of **September 30, 2016**, excludes **$7** of restructured accruing loans and **$20** 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 58: Accruing and Nonaccruing Portfolio TDRs

		Accruing			
As of December 31, 2015 ($ in millions)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccruing	Total
Commercial loans[(b)(c)]	$ 487	4	-	203	694
Residential mortgage loans[(a)]	443	54	110	23	630
Home equity	307	20	-	17	344
Automobile loans	17	-	-	2	19
Credit card	24	4	-	33	61
Total	$ 1,278	82	110	278	1,748

(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, 2015, these advances represented $202 of current loans, $42 of 30-89 days past due loans and $99 of 90 days or more past due loans.

(b) As of December 31, 2015, excludes $7 of restructured accruing loans and $20 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)

Analysis of Net Loan Charge-offs

Net charge-offs were 45 bps and 80 bps of average portfolio loans and leases for the three months ended September 30, 2016 and 2015, respectively, and were 41 bps and 53 bps of average portfolio loans and leases for the nine months ended September 30, 2016 and 2015, respectively. Table 59 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 decreased to 43 bps and 38 bps during the three and nine months ended September 30, 2016, respectively, compared to 99 bps and 54 bps during the three and nine months ended September 30, 2015, respectively. The three and nine months ended September 30, 2015 included a charge-off associated with the restructuring of a student loan backed commercial credit originated in 2007, included in net charge-offs on commercial and industrial loans. Additionally, the three and nine months ended September 30, 2016 included $19 million of charge-offs in the energy portfolio related to oil field services loans, included in net charge-offs on commercial and industrial loans, and a $9 million and $10 million decrease in net charge-offs on commercial mortgage loans for the three and nine months ended September 30, 2016, respectively.

The ratio of consumer loan and lease net charge-offs to average portfolio consumer loans and leases decreased to 49 bps and 47 bps during the three and nine months ended September 30, 2016, respectively, compared to 51 bps and 52 bps for the three and nine months ended September 30, 2015, respectively. Residential mortgage loan net charge-offs, which typically involve partial charge-offs based upon appraised values of underlying collateral, decreased $1 million and $7 million for the three and nine months ended September 30, 2016, 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 $2 million and $11 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to improvements in loss severities. 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 loan net charge-offs increased $2 million and $7 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in the prior year primarily due to a strategic shift focusing on improving risk adjusted return along with a modest decline in used car values at auction.

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 59: Summary of Credit Loss Experience

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Losses charged-off:				
Commercial and industrial loans	**$ (76)**	(133)	**(169)**	(216)
Commercial mortgage loans	**(4)**	(13)	**(19)**	(32)
Commercial construction loans	**-**	(3)	**-**	(3)
Commercial leases	**(1)**	-	**(4)**	-
Residential mortgage loans	**(4)**	(6)	**(14)**	(23)
Home equity	**(10)**	(13)	**(30)**	(42)
Automobile loans	**(14)**	(11)	**(40)**	(33)
Credit card	**(22)**	(24)	**(68)**	(72)
Other consumer loans and leases	**(6)**	(6)	**(15)**	(16)
Total losses charged-off	**$ (137)**	(209)	**(359)**	(437)
Recoveries of losses previously charged-off:				
Commercial and industrial loans	**$ 15**	5	**22**	16
Commercial mortgage loans	**2**	2	**5**	8
Commercial construction loans	**-**	-	**1**	-
Commercial leases	**1**	-	**1**	-
Residential mortgage loans	**2**	3	**7**	9
Home equity	**3**	4	**10**	11
Automobile loans	**5**	4	**14**	14
Credit card	**2**	3	**7**	9
Other consumer loans and leases	**-**	-	**3**	4
Total recoveries of losses previously charged-off	**$ 30**	21	**70**	71
Net losses charged-off:				
Commercial and industrial loans	**$ (61)**	(128)	**(147)**	(200)
Commercial mortgage loans	**(2)**	(11)	**(14)**	(24)
Commercial construction loans	**-**	(3)	**1**	(3)
Commercial leases	**-**	-	**(3)**	-
Residential mortgage loans	**(2)**	(3)	**(7)**	(14)
Home equity	**(7)**	(9)	**(20)**	(31)
Automobile loans	**(9)**	(7)	**(26)**	(19)
Credit card	**(20)**	(21)	**(61)**	(63)
Other consumer loans and leases	**(6)**	(6)	**(12)**	(12)
Total net losses charged-off	**$ (107)**	(188)	**(289)**	(366)
Net losses charged-off as a percent of average portfolio loans and leases:				
Commercial and industrial loans	**0.56 %**	1.17	**0.45**	0.63
Commercial mortgage loans	**0.08**	0.66	**0.27**	0.44
Commercial construction loans	**-**	0.43	**(0.02)**	0.15

Commercial leases	**-**	-	**0.09**	-
Total commercial loans and leases	**0.43 %**	0.99	**0.38**	0.54
Residential mortgage loans	**0.07**	0.10	**0.07**	0.15
Home equity	**0.32**	0.42	**0.33**	0.48
Automobile loans	**0.35**	0.23	**0.31**	0.22
Credit card	**3.61**	3.77	**3.75**	3.66
Other consumer loans and leases	**3.70**	3.52	**2.80**	3.33
Total consumer loans and leases	**0.49 %**	0.51	**0.47**	0.52
Total net losses charged-off as a percent of average portfolio loans and leases	**0.45 %**	0.80	**0.41**	0.53

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 economic conditions that might impact the portfolio. More information on the ALLL can be found in the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015.

During the nine months ended September 30, 2016, the Bancorp refined certain estimation techniques associated with the ALLL. Such refinements included the introduction of individual loss rate mitigation analyses for each commercial loan portfolio class as contrasted to the single composite loss rate migration analysis for the entire commercial loan portfolio which was used in prior periods. These refinements did not substantively change any material aspect of the Bancorp s overall approach in the determination of the ALLL and there have been no material changes in assumptions 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 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 changes in policies or procedures in underwriting, monitoring or collections, economic conditions, portfolio mix, lending and risk management personnel, results of internal audit and quality control reviews, collateral values and geographic concentrations. The Bancorp considers home price index trends in its footprint and the volatility of collateral valuation trends when determining the collateral value qualitative factor.

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 have increased by approximately $191 million at September 30, 2016. In addition, the Bancorp s determination of the ALLL for residential mortgage loans 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 loans and consumer loans would have increased by approximately $30 million at September 30, 2016. 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 60: Changes in Allowance for Credit Losses

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
ALLL:				
Balance, beginning of period	**$** 1,299	1,293	1,272	1,322
Losses charged-off	**(137)**	(209)	**(359)**	(437)
Recoveries of losses previously charged-off	**30**	21	**70**	71
Provision for loan and lease losses	**80**	156	**289**	305
Balance, end of period	**$ 1,272**	1,261	**1,272**	1,261
Reserve for unfunded commitments:				
Balance, beginning of period	**$** 151	132	138	135
Provision for unfunded commitments	**11**	2	**24**	-
Charge-offs	**-**	-	**-**	(1)
Balance, end of period	**$ 162**	134	**162**	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, 2016 and December 31, 2015. The unallocated allowance was 9% of the total allowance at both September 30, 2016 and December 31, 2015.

As shown in Table 61, the ALLL as a percent of portfolio loans and leases was 1.37% at both September 30, 2016 and December 31, 2015. The ALLL was $1.3 billion at both September 30, 2016 and December 31, 2015.

Table of Contents

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

TABLE 61: Attribution of Allowance for Loan and Lease Losses to Portfolio Loans and Leases

As of ($ in millions)		**September 30, 2016**	December 31, 2015
Attributed ALLL:			
Commercial and industrial loans	**$**	**740**	652
Commercial mortgage loans		**86**	117
Commercial construction loans		**14**	24
Commercial leases		**14**	47
Residential mortgage loans		**96**	100
Home equity		**58**	67
Automobile loans		**42**	40
Credit card		**94**	99
Other consumer loans and leases		**13**	11
Unallocated		**115**	115
Total ALLL	**$**	**1,272**	1,272
Portfolio loans and leases:			
Commercial and industrial loans	**$**	**42,727**	42,131
Commercial mortgage loans		**6,856**	6,957
Commercial construction loans		**3,905**	3,214
Commercial leases		**3,995**	3,854
Residential mortgage loans		**14,643**	13,716
Home equity		**7,864**	8,301
Automobile loans		**10,349**	11,493
Credit card		**2,169**	2,259
Other consumer loans and leases		**643**	657
Total portfolio loans and leases	**$**	**93,151**	92,582
Attributed ALLL as a percent of respective portfolio loans and leases:			
Commercial and industrial loans		**1.73 %**	1.55
Commercial mortgage loans		**1.25**	1.68
Commercial construction loans		**0.36**	0.75
Commercial leases		**0.35**	1.22
Residential mortgage loans		**0.66**	0.73
Home equity		**0.74**	0.81
Automobile loans		**0.41**	0.35
Credit card		**4.33**	4.38
Other consumer loans and leases		**2.02**	1.67
Unallocated (as a percent of total portfolio loans and leases)		**0.12**	0.12
Attributed ALLL as a percent of total portfolio loans and leases		**1.37 %**	1.37

MARKET RISK MANAGEMENT

Market risk is the day-to-day potential for the value of a financial instrument to increase or decrease due to movements in market factors. The Bancorp s market risk includes risks resulting from movements in interest rates, foreign exchange rates, equity prices and commodity prices in both the banking book and the trading book. Interest rate risk, a component of market risk, primarily impacts the Bancorp s net interest income and interest sensitive fee income categories through changes in interest income on earning assets and cost of interest bearing liabilities, and through fee items that are related to interest sensitive activities such as commercial loan fees and mortgage origination and servicing income. 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 and deposit 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. A series of Policy Limits and Key Risk Indicators are monitored to ensure that this risk is managed within the Bancorp s risk appetite.

Interest Rate Risk Management Oversight

The Bancorp ALCO, which includes senior management representatives and is accountable to the ERMC, 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, deviations from projected assumptions, 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 50 bps parallel rate shock 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 50 bps parallel rate shock 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 noninterest-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 noninterest-bearing demand deposit balances run-off for each 100 bps increase in short-term market interest rates. These lost noninterest-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 69% at September 30, 2016, which is approximately 20 percentage points higher than the 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 62: Estimated NII Sensitivity Profile and ALCO Policy Limits

	September 30, 2016				September 30, 2015			
	% Change in NII (FTE)		ALCO Policy Limits		% Change in NII (FTE)		ALCO Policy Limits	
Change in Interest Rates (bps)	12 Months	13-24 Months	12 Months	13-24 Months	12 Months	13-24 Months	12 Months	13-24 Months
+200 Ramp	**3.42 %**	**11.02**	**(4.00)**	**(6.00)**	1.63	5.40	(4.00)	(6.00)
+100 Ramp	**1.89**	**6.67**	**-**	**-**	0.87	3.49	-	-
-50 Shock	**(5.21)**	**(7.92)**	**-**	**-**	N/A	N/A	-	-

At September 30, 2016, 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 50 bps rate shock 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, 2015 are primarily attributable to runoff in the indirect automobile loan portfolio, forecasted core deposit balance growth and higher outstanding balances of fixed-rate debt. These items were partially offset by investment portfolio growth and residential mortgage loan growth.

Tables 63 and 64 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, 2016:

TABLE 63: Estimated NII Sensitivity Assuming a $1 Billion Change in Demand Deposit Balances

	% Change in NII (FTE)			
	$1 Billion Balance Decrease		$1 Billion Balance Increase	
	12	13-24	12	13-24
Change in Interest Rates (bps)	Months	Months	Months	Months
+200 Ramp	3.14 %	10.47	3.69	11.57
+100 Ramp	1.75	6.39	2.03	6.94

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, 2016. The resulting weighted-average interest-bearing deposit beta included in this analysis is approximately 87% and 52%, respectively, as of September 30, 2016:

TABLE 64: Estimated NII Sensitivity with Deposit Beta Assumption Changes

	% Change in NII (FTE)			
	Betas		Betas	
	25% Higher		25% Lower	
	12	13-24	12	13-24
Change in Interest Rates (bps)	Months	Months	Months	Months
+200 Ramp	0.43 %	5.05	6.40	16.98
+100 Ramp	0.40	3.68	3.38	9.65

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 (non-GAAP) basis over one and two year time horizons, the EVE analysis is a point in time analysis of the economic sensitivity of 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 estimated EVE sensitivity profile as of:

TABLE 65: Estimated EVE Sensitivity Profile

	September 30, 2016		September 30, 2015	
Change in Interest Rates (bps)	% Change in EVE	ALCO Policy Limit	% Change in EVE	ALCO Policy Limit
+200 Shock	**(1.56)%**	**(12.00)**	(4.75)	(12.00)
+100 Shock	**0.10**	**-**	(1.92)	-
+25 Shock	**0.24**	**-**	(0.37)	-
-50 Shock	**(1.34)**	**-**	N/A	-

The EVE sensitivity to the +200 bps rising rate scenario is modestly negative at September 30, 2016, and is also slightly negative to a decline in market rates. The +200 bps rising rate sensitivity is down from the sensitivity at September 30, 2015. The decrease in risk is related to long-term debt issuances, run-off of indirect automobile loan balances and the decline in term market interest rates, which reduced investment portfolio and residential mortgage loan portfolio durations and improved the risk profiles of core deposits. These items were partially offset by growth in investment portfolio balances.

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 may not necessarily include certain actions that management may undertake to manage risk in response to actual 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.

Table of Contents

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

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, forward starting interest rate swaps, options, swaptions and TBA securities.

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 enters into derivatives contracts with major financial institutions to economically hedge market risks assumed in interest rate derivative contracts with commercial customers. 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 12 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, excluding interest receivable, as of September 30, 2016:

TABLE 66: Portfolio Loans and Leases Expected Cash Flows

($ in millions)	Less than 1 year	1-5 years	Over 5 years	Total
Commercial and industrial loans	$ 22,383	18,813	1,531	42,727
Commercial mortgage loans	2,596	3,802	458	6,856
Commercial construction loans	1,522	2,351	32	3,905
Commercial leases	821	1,912	1,262	3,995
Total commercial loans and leases	27,322	26,878	3,283	57,483
Residential mortgage loans	3,319	6,938	4,386	14,643
Home equity	995	1,507	5,362	7,864
Automobile loans	4,654	5,575	120	10,349
Credit card	433	1,736	-	2,169
Other consumer loans and leases	485	120	38	643

Total consumer loans and leases	9,886	15,876	9,906	35,668
Total portfolio loans and leases	$ 37,208	42,754	13,189	93,151

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, 2016:

TABLE 67: Portfolio Loans and Leases Expected Cash Flows Occurring After 1 Year

		Interest Rate	
($ in millions)		Fixed	Floating or Adjustable
Commercial and industrial loans	$	2,541	17,803
Commercial mortgage loans		883	3,377
Commercial construction loans		5	2,378
Commercial leases		3,174	-
Total commercial loans and leases		6,603	23,558
Residential mortgage loans		8,504	2,820
Home equity		522	6,347
Automobile loans		5,637	58
Credit card		518	1,218
Other consumer loans and leases		20	138
Total consumer loans and leases		15,201	10,581
Total portfolio loans and leases	$	21,804	34,139

Residential Mortgage Servicing Rights and Interest Rate Risk

The net carrying amount of the residential MSR portfolio was $619 million and $784 million as of September 30, 2016 and December 31, 2015, 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.

Table of Contents

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

Mortgage rates increased during the three months ended September 30, 2016. Actual prepayment speeds also increased during the three months ended September 30, 2016, but were associated with the interest rate decline at the end of the second quarter of 2016 as there is a natural lag between interest rate movements and prepayments. The increase in mortgage rates caused modeled prepayment speeds to decrease, which led to a recovery of temporary impairment of $7 million. Mortgage rates decreased during the nine months ended September 30, 2016. Mortgage rates were also lower during both the three and nine months ended September 30, 2015 which caused actual prepayments on the servicing portfolio to increase. Lower mortgage rates caused modeled prepayment speeds to increase, which led to a temporary impairment of $125 million during the nine months ended September 30, 2016 and temporary impairment of $77 million and $38 million during the three and nine months ended September 30, 2015, respectively. 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 to the MSR valuation, the Bancorp recognized net losses of $16 million and net gains of $133 million on derivatives associated with its non-qualifying hedging strategy during the three and nine months ended September 30, 2016, respectively, compared to net gains of $85 million and $119 million, respectively 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 11 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, 2016 and December 31, 2015 was $922 million and $812 million, respectively. The Bancorp also enters into foreign exchange contracts for the benefit of commercial customers to hedge their exposure to foreign currency fluctuations. Similar to the hedging of interest rate risk from interest rate derivative contracts, the Bancorp also enters into foreign exchange contracts with major financial institutions to economically hedge a substantial portion of the exposure from client driven foreign exchange activity. The Bancorp has risk limits and 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 performed by the Capital Markets Credit Department and Capital Markets Risk Department.

Commodity Risk

The Bancorp also enters into commodity contracts for the benefit of commercial customers to hedge their exposure to commodity price fluctuations. Similar to the hedging of foreign exchange and interest rate risk from interest rate derivative contracts, the Bancorp also enters into commodity contracts with major financial institutions to economically hedge a substantial portion of the exposure from client driven commodity activity. The Bancorp may also offset this risk with exchange traded commodity contracts. The Bancorp has risk limits and internal controls in place to help ensure excessive risk is not taken in providing this service to customers. These controls include an

independent determination of commodity volatility and credit equivalent exposure on these contracts and counterparty credit approvals performed by the Capital Markets Credit Department and Capital Markets Risk Department.

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 16 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 66 of the Market Risk Management subsection of the Risk Management section of MD&A illustrates the expected maturities from loan and lease repayments. Of the $30.7 billion of securities in the Bancorp s available-for-sale and other portfolio at September 30, 2016, $5.4 billion in principal and interest is expected to be received in the next 12 months and an additional $3.8 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 section 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 mortgage loans, 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 $1.9 billion and $5.0 billion during the three and nine months ended September 30, 2016, respectively, compared to $1.4 billion and $4.4 billion during the three and nine months ended September 30, 2015, respectively. For further information on the transfer of financial assets, refer to Note 11 of the Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

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 average shareholders equity funded 81% of its average total assets for both the three and nine months ended September 30, 2016 and 81% and 82% for the three and nine months ended September 30, 2015, respectively. In addition to core deposit funding, the Bancorp also accesses a variety of other short-term and long-term funding sources, which include securitized advances from the FHLB system. Certificates of deposit $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, 2016, $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. At September 30, 2016, the Bancorp has approximately $37.0 billion of borrowing capacity available through secured borrowing sources including the FHLB and FRB.

The Bank s global bank note program has a borrowing capacity of $25.0 billion, of which $15.3 billion is available for issuance as of September 30, 2016. On March 15, 2016, the Bank issued and sold $1.5 billion in aggregate principal amounts of unsecured bank notes. On June 14, 2016, the Bank issued and sold $1.3 billion of unsecured bank notes. On September 27, 2016, the Bank issued and sold $1.0 billion of unsecured bank notes.

Liquidity Coverage Ratio and Net Stable Funding Ratio

A key reform within the Basel III framework to strengthen international liquidity standards was the BCBS 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.

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 the Bancorp. 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 became 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 s Modified LCR was 115% at September 30, 2016 calculated under the LCR final rule.

The U.S. banking agencies have issued a notice of proposed rulemaking to implement a modified NSFR for certain bank holding companies with at least $50 billion but less than $250 billion in total consolidated assets and with less

than $10 billion in on-balance sheet foreign exposures, including the Bancorp. The NSFR is designed to promote medium- and long-term stable funding of the assets and off-balance-sheet activities of banks and bank holding companies over a one-year time horizon. Generally consistent with the BCBS framework, under the proposed rule banking organizations would be required to hold an amount of ASF over a one-year time horizon that equals or exceeds the institution s amount of RSF, with the ASF representing the numerator and the RSF representing the denominator of the NSFR. Banking organizations subject to the modified NSFR would multiply the RSF amount by 70%, such that the RSF amount required for these institutions would be equivalent to 70% of the RSF amount that would be required pursuant to the full NSFR generally applicable to institutions with at least $250 billion in total consolidated assets or $10 billion or more in on-balance sheet foreign exposures under the proposed rule. The proposed rule includes detailed descriptions of the items that would comprise ASF and RSF and standardized factors that would apply to ASF and RSF items, and would require any institution whose applicable modified NSFR falls under 100% to notify the appropriate federal regulator and develop a remediation plan.

If ultimately adopted as currently proposed, the implementation of the NSFR could impact the Bancorp s liquidity and funding requirements and practices in the future, including by incentivizing increased use of long-term debt as a funding source. Under the proposal, the NSFR becomes effective January 1, 2018 with public disclosure requirements beginning for the calendar quarter that ends on March 31, 2018. The comment period for this proposal ended on August 5, 2016. The Bancorp is currently evaluating the impact of the U.S. banking agencies NSFR framework.

Credit Ratings

The cost and availability of financing to the Bancorp and Bank are impacted by its credit ratings. A downgrade to the Bancorp s or Bank s credit ratings could affect its ability to access the credit markets and increase its borrowing costs, thereby adversely impacting the Bancorp s or Bank 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 and Bank s credit ratings are summarized in Table 68. The ratings reflect the ratings agency s view on the Bancorp s and Bank s capacity to meet financial commitments. In conjunction with their periodic review of the large regional banking group, Fitch Ratings affirmed the Bancorp s ratings at A/F1 but revised the outlook to Negative from Stable. Fitch has stated that it expects resolution of this ratings outlook to be at the outer end of the 12 to 24 month outlook horizon period.*

** 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 of Contents

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

TABLE 68: Agency Ratings

As of November 9, 2016	Moody s	Standard and Poor s	Fitch	DBRS
Fifth Third Bancorp:				
Short-term	No rating	A-2	F1	R-1L
Senior debt	Baa1	BBB+	A	AL
Subordinated debt	Baa1	BBB	A-	BBBH
Fifth Third Bank:				
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
Rating Agency Outlook for Fifth Third Bancorp and Fifth Third Bank:	Stable	Stable	Negative	Stable

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems or due to external events that are neither market nor credit-related. Operational risk is inherent in the Bancorp s activities and can manifest itself in various ways including fraudulent acts, business interruptions, inappropriate behavior of employees, unintentional failure to comply with applicable laws and regulations, cyber-security incidents and privacy breaches, or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damage to the Bancorp. The Bancorp s risk management goal is to keep operational risk at appropriate levels consistent with the Bancorp s risk appetite, financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

To control, monitor, and govern operational risk, the Bancorp maintains an overall Risk Management Framework which comprises governance oversight, risk assessment, capital measurement, monitoring, and reporting as well as a formal three lines of defense approach. ERM is responsible for prescribing the framework to the lines of business and corporate functions, and to provide independent oversight of its implementation (second line of defense). Business Controls groups are in place in each of the lines of business to ensure consistent implementation and execution of managing day to day operational risk (first line of defense).

The Bancorp s risk management framework consists of five integrated components, including identifying, assessing, managing, monitoring and independent governance reporting of risk. The corporate Operational Risk Management function within Enterprise Risk is responsible for developing and overseeing the implementation of the Bancorp s approach to managing operational risk. This includes providing governance, awareness and 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, Vendor Risk Management, 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.

COMPLIANCE RISK MANAGEMENT

Regulatory compliance risk is defined as the risk of legal or regulatory sanctions, financial loss, or damage to reputation as a result of noncompliance with (i) applicable laws, regulations, rules and other regulatory requirements (including but not limited to the risk of consumers experiencing economic loss or other legal harm as a result of noncompliance with consumer protection laws, regulations and requirements); (ii) internal policies and procedures, standards of best practice or codes of conduct; and (iii) principles of integrity and fair dealing applicable to Fifth Third s activities and functions. Fifth Third focuses on managing regulatory compliance risk in accordance with the Bancorp s integrated risk management framework, which ensures consistent processes for identifying, assessing, managing, monitoring, and reporting risks. The Bancorp s risk management goal is to keep compliance risk at appropriate levels consistent with the Bancorp s risk appetite.

The current regulatory environment, including heightened regulatory expectations and material changes in laws and regulations, increases compliance risk. To mitigate compliance risk, Compliance Risk Management provides independent oversight to ensure consistency and sufficiency in the execution of the program, and ensures that lines of business, regions and support functions are adequately identifying, assessing and monitoring compliance risks and adopting proper mitigation strategies. The lines of business and enterprise functions are responsible for managing the compliance risks associated with their areas. Additionally, Compliance Risk Management implements key compliance programs and processes including but not limited to, risk assessments, key risk indicators, issues tracking, regulatory compliance testing and monitoring, anti-money laundering, privacy, and oversees the Bancorp s compliance with the Community Reinvestment Act.

Fifth Third also focuses on the reporting and escalation of compliance issues to senior management and the Board. The Management Compliance Committee is the key committee that oversees and supports Fifth Third in the management of compliance risk across the enterprise. The Management Compliance Committee oversees Fifth Third-wide compliance issues, industry best practices, legislative developments (in coordination with the Regulatory Change Management Committee), regulatory concerns, and other leading indicators of compliance risk. The Management Compliance Committee reports to the Enterprise Risk Management Committee, which reports to the Risk and Compliance Committee of the Board of Directors.

Table of Contents

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

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 ERMC and the annual 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.

Regulatory 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 Leverage ratio (Tier I capital to average consolidated assets). The PCA provisions adopted by the U.S. banking agencies define well-capitalized ratios for CET1 capital, Tier I risk-based capital, Total risk-based capital and Tier I leverage greater than or equal to 6.5%, 8%, 10% and 5%, respectively.

On January 1, 2016, the Bancorp became subject to a capital conservation buffer which will be phased in over a three-year period ending January 1, 2019. Once fully phased-in, the capital conservation buffer will be 2.5% in addition to the minimum capital requirements, in order to avoid limitations on certain capital distributions and discretionary bonus payments to executive officers. The capital conservation buffer is 0.625% in 2016. 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 regulatory 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, 2016, the Bancorp s Tier I capital did not include any TruPS, compared to $13 million, or 1 bp of risk-weighted assets, at December 31, 2015.

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

TABLE 69: Capital Ratios

($ in millions)	**September 30, 2016**	December 31, 2015
Average total Bancorp shareholders equity as a percent of average assets	**11.83 %**	11.26
Tangible equity as a percent of tangible assets[(a)(c)]	**9.73**	9.55
Tangible common equity as a percentage of tangible assets[(a)(c)]	**8.78**	8.59

Basel III Transitional[(b)]

CET1 capital	$	**12,299**	11,917
Tier I capital		**13,630**	13,260
Total regulatory capital		**18,004**	17,134
Risk-weighted assets		**120,954**	121,290 *(d)*
Regulatory capital ratios:			
CET1 capital		**10.17 %**	9.82 *(d)*
Tier I risk-based capital		**11.27**	10.93 *(d)*
Total risk-based capital		**14.88**	14.13 *(d)*
Tier I leverage		**9.80**	9.54 *(d)*
		Basel III Fully Phased-In	
CET1 capital*(a)*		**10.09 %**	9.72 *(d)*

(a) These are non-GAAP measures. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

(b) Under the U.S. 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) Excludes unrealized gains and losses.

(d) Balances and ratios not restated for the adoption of the amended guidance of ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further information.

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 2016 stress testing program and CCAR on January 28, 2016, with submissions of stress test results and capital plans to the FRB due on April 5, 2016, 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 each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon.

Table of Contents

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

On June 29, 2016, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2016 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 capital distributions. The FRB indicated to the Bancorp that it did not object to the following capital actions for the period beginning July 1, 2016 and ending June 30, 2017:

- The potential increase in the quarterly common stock dividend to $0.14 in the fourth quarter of 2016;
- The potential repurchase of common shares in an amount up to $660 million, which includes $84 million in repurchases related to share issuances under employee benefit plans;
- The additional ability to repurchase shares in the amount of any realized after-tax gains from the sale of Vantiv, Inc. common stock, if executed;
- The additional ability to repurchase shares in the amount of any realized after-tax gains from the termination and settlement of any portion of the TRA with Vantiv, Inc., if executed.

As contemplated by the 2015 CCAR, during the first quarter of 2016, the Bancorp entered into a $240 million accelerated share repurchase transaction and during the second quarter of 2016, the Bancorp repurchased approximately $26 million of its outstanding common stock through open market share repurchase transactions. Additionally, as contemplated by the 2016 CCAR, during the third quarter of 2016, the Bancorp entered into a $240 million accelerated share repurchase transaction. For further information, refer to Note 15 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 June 23, 2016 the Bancorp publicly disclosed the results of its company-run stress test as required by the DFA stress testing rules, which is available on Fifth Third s website at https://www.53.com.

The BHCs that participated in the 2016 CCAR, including the Bancorp, are required to also conduct mid-cycle company-run stress tests using data as of June 30, 2016. The stress tests must be based on three BHC defined scenarios baseline, adverse and severely adverse. The Bancorp reported its mid-cycle stress test results to the FRB by the required October 5, 2016 submission date. In addition, the Bancorp published a Form 8-K providing a summary of the results under the severely adverse scenario on October 27, 2016, which is available on Fifth Third s website at https://www.53.com. These results represented estimates of the Bancorp s results from the third quarter of 2016 through the third quarter of 2018 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, 2016 and 2015 and

$0.39 for both the nine months ended September 30, 2016 and 2015. The Bancorp entered into or settled a number of accelerated share repurchase transactions during the nine months ended September 30, 2016. Refer to Note 15 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, 2016:

TABLE 70: Share Repurchases

Period	Total Number of Shares Purchased[(a)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs[(b)]
July 1, 2016 - July 31, 2016	79,517	$ 18.27	-	96,695,521
August 1, 2016 - August 31, 2016	11,064,920	18.59	10,979,548	85,715,973
September 1, 2016 - September 30, 2016	125,400	20.04	-	85,715,973
Total	11,269,837	$ 18.60	10,979,548	85,715,973

(a) Includes 290,289 shares repurchased during the third quarter of 2016 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 2016, 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 Bancorp s Condensed Consolidated Balance Sheets. The Bancorp s off-balance sheet arrangements include commitments, guarantees, contingent liabilities, 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 mortgage loans, noncancelable operating lease obligations, capital commitments for private equity investments and purchase obligations. Refer to Note 16 of the Notes to Condensed Consolidated Financial Statements for additional information on commitments.

Guarantees and Contingent Liabilities

For certain mortgage loans originated by the Bancorp, borrowers may be required to obtain PMI provided by third-party insurers. In some instances, these insurers cede a portion of the PMI premiums to the Bancorp, and the Bancorp provides reinsurance coverage within a specified range of the total PMI coverage. The Bancorp s reinsurance coverage typically ranges from 5% to 10% of the total PMI coverage. In the second quarter of 2016, the Bancorp allowed one of its third-party insurers to terminate its reinsurance agreement with the Bancorp, resulting in the Bancorp releasing collateral to the insurer in the form of investment securities and other assets with a carrying value of $6 million, and the insurer assuming the Bancorp s obligations under the reinsurance agreement, resulting in a decrease to the Bancorp s reserve liability of $2 million and a decrease in the Bancorp s maximum exposure of $26 million. In addition, the Bancorp received a payment of $4 million related to the difference between the release of the assets and the reserve liability assumed. The Bancorp s remaining maximum exposure in the event of nonperformance by the underlying borrowers is equivalent to the Bancorp s total outstanding reinsurance coverage, which was $1 million at September 30, 2016 and $27 million at December 31, 2015. As of September 30, 2016 the Bancorp no longer maintained a reserve related to exposures within the reinsurance portfolio. As of December 31, 2015 the Bancorp maintained a reserve of $2 million related to exposures within the reinsurance portfolio which was included in other liabilities in the Condensed Consolidated Balance Sheet. The change in the reserve was due primarily to the decrease in outstanding exposure associated with the termination of the reinsurance agreement discussed previously. During 2009, the Bancorp suspended the practice of providing reinsurance of PMI for newly originated mortgage loans.

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 16 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 10 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 of 1934). The disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports the Bancorp files and submits under the Securities Exchange Act of 1934 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. Based on the evaluation, 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 not effective, because of deficiencies in the Bancorp s policies and procedures relating to the registration of, and prospectus delivery with respect to, the Bancorp s employee benefit plans as described in Part II, Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds).

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)

($ in millions, except share data)		As of **September 30, 2016**	December 31, 2015
Assets			
Cash and due from banks[a]	**$**	**2,164**	2,540
Available-for-sale and other securities[b]		**30,689**	29,044
Held-to-maturity securities[c]		**56**	70
Trading securities		**431**	386
Other short-term investments		**2,995**	2,671
Loans held for sale[d]		**1,060**	903
Portfolio loans and leases[a][e]		**93,151**	92,582
Allowance for loan and lease losses[a]		**(1,272)**	(1,272)
Portfolio loans and leases, net		**91,879**	91,310
Bank premises and equipment[f]		**2,084**	2,239
Operating lease equipment		**771**	707
Goodwill		**2,416**	2,416
Intangible assets		**10**	12
Servicing rights		**619**	785
Other assets[a][j]		**8,105**	7,965
Total Assets[j]	**$**	**143,279**	141,048
Liabilities			
Deposits:			
Noninterest-bearing deposits	**$**	**35,625**	36,267
Interest-bearing deposits		**65,646**	66,938
Total deposits[g]		**101,271**	103,205
Federal funds purchased		**126**	151
Other short-term borrowings		**3,494**	1,507
Accrued taxes, interest and expenses		**2,178**	2,164
Other liabilities[a]		**2,516**	2,341
Long-term debt[a][j]		**16,890**	15,810
Total Liabilities[j]	**$**	**126,475**	125,178
Equity			
Common stock[h]	**$**	**2,051**	2,051
Preferred stock[i]		**1,331**	1,331
Capital surplus		**2,745**	2,666
Retained earnings		**13,180**	12,358
Accumulated other comprehensive income		**755**	197

Treasury stock[(h)]		**(3,286)**	(2,764)
Total Bancorp shareholders equity	**$**	**16,776**	15,839
Noncontrolling interests		**28**	31
Total Equity		**16,804**	15,870
Total Liabilities and Equity[(j)]	**$**	**143,279**	141,048

*(a) Includes **$112** and $152 of cash and due from banks, **$1,560** and $2,537 of portfolio loans and leases, **$(28)** and $(28) of ALLL, **$11** and $14 of other assets, **$3** and $3 of other liabilities, and **$1,422** and $2,487 of long-term debt from consolidated VIEs that are included in their respective captions above at **September 30, 2016** and December 31, 2015, respectively. For further information refer to Note 10.*

*(b) Amortized cost of **$29,486** and $28,678 at **September 30, 2016** and December 31, 2015, respectively.*

*(c) Fair value of **$56** and $70 at **September 30, 2016** and December 31, 2015, respectively.*

*(d) Includes **$954** and $519 of residential mortgage loans held for sale measured at fair value at **September 30, 2016** and December 31, 2015, respectively.*

*(e) Includes **$149** and $167 of residential mortgage loans measured at fair value at **September 30, 2016** and December 31, 2015, respectively.*

*(f) Includes **$45** and $81 of bank premises and equipment held for sale at **September 30, 2016** and December 31, 2015, respectively. For further information refer to Note 7.*

*(g) Includes **$0** and $628 of deposits held for sale at **September 30, 2016** and December 31, 2015, respectively.*

*(h) Common shares: Stated value $2.22 per share; authorized 2,000,000,000; outstanding at **September 30, 2016** **755,582,255** (excludes **168,310,326** treasury shares), December 31, 2015 785,080,314 (excludes 138,812,267 treasury shares).*

*(i) **446,000** shares of undesignated no par value preferred stock are authorized and unissued at **September 30, 2016** and December 31, 2015; 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, 2016** and December 31, 2015; 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, 2016** and December 31, 2015; 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, 2016** and December 31, 2015.*

(j) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $34 of debt issuance costs from other assets to long-term debt. For further information refer to Note 3.

Refer to the 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)

n millions, except share data)	For the three months ended September 30, **2016**	2015	For the nine months ende September 30, **2016**	2015
rest Income				
rest and fees on loans and leases	$ **816**	795	**2,429**	2,
rest on securities	**239**	230	**707**	
rest on other short-term investments	**2**	1	**6**	
l interest income	**1,057**	1,026	**3,142**	2,
rest Expense				
rest on deposits	**51**	44	**151**	
rest on federal funds purchased	**-**	-	**2**	
rest on other short-term borrowings	**2**	1	**8**	
rest on long-term debt	**97**	80	**269**	
l interest expense	**150**	125	**430**	
Interest Income	**907**	901	**2,712**	2,
vision for loan and lease losses	**80**	156	**289**	
Interest Income After Provision for Loan and Lease Losses	**827**	745	**2,423**	2,
interest Income				
vice charges on deposits	**143**	145	**417**	
porate banking revenue	**111**	104	**330**	
lth and asset management revenue	**101**	103	**304**	
l and processing revenue	**79**	77	**240**	
tgage banking net revenue	**66**	71	**219**	
er noninterest income	**336**	213	**552**	
urities gains, net	**4**	-	**13**	
l noninterest income	**840**	713	**2,075**	1,
interest Expense				
ries, wages and incentives	**400**	387	**1,209**	1,
loyee benefits	**78**	72	**263**	
occupancy expense	**73**	77	**226**	
nology and communications	**62**	56	**178**	
l and processing expense	**30**	40	**101**	
ipment expense	**29**	31	**89**	
er noninterest expense	**301**	280	**876**	
l noninterest expense	**973**	943	**2,942**	2,
ome Before Income Taxes	**694**	515	**1,556**	1,

licable income tax expense		**178**	134	**385**	
Income		**516**	381	**1,171**	1,
: Net income attributable to noncontrolling interests		**-**	-	**(4)**	
Income Attributable to Bancorp		**516**	381	**1,175**	1,
dends on preferred stock		**15**	15	**52**	
Income Available to Common Shareholders	**$**	**501**	366	**1,123**	1,
nings per share - basic	**$**	**0.66**	0.46	**1.46**	1
nings per share - diluted	**$**	**0.65**	0.45	**1.45**	1
rage common shares outstanding - basic		**750,885,834**	795,792,825	**761,147,543**	803,269,
rage common shares outstanding - diluted		**757,455,625**	805,022,588	**766,941,312**	812,099,
h dividends declared per common share	**$**	**0.13**	0.13	**0.39**	0

Refer to the 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 months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Net Income	**$ 516**	381	**1,171**	1,050
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gains on available-for-sale securities:				
Unrealized holding gains (losses) arising during period	**(113)**	208	**538**	64
Reclassification adjustment for net gains included in net income	**(1)**	(7)	**(11)**	(11)
Unrealized gains on cash flow hedge derivatives:				
Unrealized holding gains (losses) arising during period	**(15)**	42	**49**	71
Reclassification adjustment for net gains included in net income	**(7)**	(13)	**(23)**	(36)
Defined benefit pension plans, net:				
Net actuarial loss arising during period	**(3)**	(1)	**(3)**	(3)
Reclassification of amounts to net periodic benefit costs	**5**	2	**8**	8
Other comprehensive income (loss), net of tax:	**(134)**	231	**558**	93
Comprehensive Income	**382**	612	**1,729**	1,143
Less: Comprehensive income attributable to noncontrolling interests	**-**	-	**(4)**	(6)
Comprehensive Income Attributable to Bancorp	**$ 382**	612	**1,733**	1,149

Refer to the 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 CHANGES IN EQUITY (unaudited)

	Bancorp Shareholders' Equity								
($ in millions, except per share data)	Common Stock	Preferred Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Bancorp Shareholders' Equity	Non-Controlling Interests	Total Equity
Balance at December 31, 2014	$ 2,051	1,331	2,646	11,141	429	(1,972)	15,626	39	15,665
Net income				1,056			1,056	(6)	1,050
Other comprehensive income, net of tax					93		93		93
Cash dividends declared:									
Common stock at $0.39 per share				(315)			(315)		(315)
Preferred stock[(a)]				(52)			(52)		(52)
Shares acquired for treasury			5			(640)	(635)		(635)
Impact of stock transactions under stock compensation plans, net			8			46	54		54
Other				(4)		3	(1)	(1)	(2)
Balance at September 30, 2015	$ 2,051	1,331	2,659	11,826	522	(2,563)	15,826	32	15,858
Balance at December 31, 2015	$ 2,051	1,331	2,666	12,358	197	(2,764)	15,839	31	15,870
Net income				**1,175**			**1,175**	**(4)**	**1,171**
Other comprehensive income, net of tax					**558**		**558**		**558**
Cash dividends declared:									
Common stock at **$0.39** per share				**(300)**			**(300)**		**(300)**
Preferred stock[(a)]				**(52)**			**(52)**		**(52)**
Shares acquired for treasury			**3**			**(509)**	**(506)**		**(506)**
Impact of stock transactions under stock			**76**	**1**		**(15)**	**62**		**62**

compensation plans, net									
Other				**(2)**	**2**	**-**	**1**	**1**	
Balance at September 30, 2016	**$**	**2,051**	**1,331**	**2,745**	**13,180**	**755**	**(3,286)**	**16,776**	**28**	**16,804**

*(a) For both the nine months ended **September 30, 2016** and 2015, dividends were **$637.50** per preferred share for Perpetual Preferred Stock, Series H, **$1,242.18** per preferred share for Perpetual Preferred Stock, Series I and **$1,225.00** per preferred share for Perpetual Preferred Stock, Series J.*

Refer to the 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 CASH FLOWS (unaudited)

	For the nine months ended September 30,	
($ in millions)	**2016**	2015
Operating Activities		
Net income	**$ 1,171**	1,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**289**	305
Depreciation, amortization and accretion	**341**	333
Stock-based compensation expense	**86**	78
Provision for (benefit from) deferred income taxes	**27**	(13)
Securities gains, net	**(12)**	(5)
Provision for MSR impairment	**125**	38
Net gains on sales of loans and fair value adjustments on loans held for sale	**(79)**	(91)
Net losses on disposition and impairment of bank premises and equipment	**14**	102
Gains on sales of certain retail branch operations	**(19)**	-
Net losses on disposition and impairment of operating lease equipment	**9**	36
Gain on the TRA associated with Vantiv, Inc.	**(164)**	-
Proceeds from sales of loans held for sale	**4,633**	3,816
Loans originated for sale, net of repayments	**(5,001)**	(3,945)
Dividends representing return on equity method investments	**21**	19
Net change in:		
Trading securities	**(42)**	(21)
Other assets	**192**	86
Accrued taxes, interest and expenses	**(343)**	(81)
Other liabilities	**(48)**	(190)
Net Cash Provided by Operating Activities	**1,200**	1,517
Investing Activities		
Proceeds from sales:		
Available-for-sale securities	**14,691**	11,692
Loans	**214**	718
Bank premises and equipment	**72**	25
Proceeds from repayments / maturities:		
Available-for-sale securities	**2,487**	2,263
Held-to-maturity securities	**13**	30

Purchases:			
Available-for-sale securities		**(17,884)**	(20,573)
Bank premises and equipment		**(148)**	(118)
Proceeds from sales and dividends representing return of equity method investments		**49**	35
Net cash paid on sales of certain retail branch operations		**(219)**	-
Net change in:			
Other short-term investments		**(324)**	5,920
Loans and leases		**(1,022)**	(4,121)
Operating lease equipment		**(136)**	(41)
Net Cash Used in Investing Activities		**(2,207)**	(4,170)
Financing Activities			
Net change in:			
Deposits		**(1,404)**	(819)
Federal funds purchased		**(25)**	(12)
Other short-term borrowings		**1,987**	3,348
Dividends paid on common stock		**(303)**	(319)
Dividends paid on preferred stock		**(52)**	(52)
Proceeds from issuance of long-term debt		**3,735**	2,342
Repayment of long-term debt		**(2,777)**	(1,809)
Repurchase of treasury stock and related forward contract		**(506)**	(635)
Other		**(24)**	(27)
Net Cash Provided by Financing Activities		**631**	2,017
Decrease in Cash and Due from Banks		**(376)**	(636)
Cash and Due from Banks at Beginning of Period		**2,540**	3,091
Cash and Due from Banks at End of Period	**$**	**2,164**	2,455

Refer to the Notes to Condensed Consolidated Financial Statements. Note 2 contains cash payments related to interest and income taxes in addition to non-cash investing and financing activities.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of the Bancorp and its majority-owned subsidiaries and VIEs in which the Bancorp has been determined to be the primary beneficiary. Other entities, including certain joint ventures, in which the Bancorp has the ability to exercise significant influence over operating and financial policies of the investee, but upon which the Bancorp does not possess control, are accounted for by the equity method and not consolidated. Those entities in which the Bancorp does not have the ability to exercise significant influence are generally carried at the lower of cost or fair value. Intercompany transactions and balances have been eliminated.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements include all adjustments, which consist of normal recurring accruals, necessary to present fairly the results for the periods presented. In accordance with U.S. GAAP and the rules and regulations of the SEC for interim financial information, these statements do not include certain information and footnote disclosures required for complete annual financial statements and it is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the Bancorp s Annual Report on Form 10-K. The results of operations and comprehensive income for the three and nine months ended September 30, 2016 and 2015 and the cash flows and changes in equity for the nine months ended September 30, 2016 and 2015 are not necessarily indicative of the results to be expected for the full year. Financial information as of December 31, 2015 has been derived from the Bancorp s Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Supplemental Cash Flow Information

Cash payments related to interest and income taxes in addition to non-cash investing and financing activities are presented in the following table for the nine months ended September 30:

($ in millions)	**2016**	2015
Cash Payments:		
Interest	**$ 481**	392
Income taxes	**605**	335
Transfers:		
Portfolio loans to loans held for sale	**153**	470
Loans held for sale to portfolio loans	**20**	274
Portfolio loans to OREO	**39**	77

3. Accounting and Reporting Developments

Revenue from Contracts with Customers

In May 2014, the FASB issued amended guidance on revenue recognition from contracts with customers. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most contract revenue recognition guidance, including industry-specific guidance. The core principle of the amended guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amended guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within the reporting period, and should be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the amendments recognized at the date of initial application. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016 and interim reporting periods within those fiscal years. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Subsequently, the FASB has issued additional guidance to clarify certain implementation issues. Specifically, the FASB issued updates regarding Principal versus Agent Considerations, Identifying Performance Obligations and Licensing and Narrow-Scope Improvements and Practical Expedients in March, April and May 2016, respectively. These amendments do not change the core principle in Revenue from Contracts with Customers (Topic 606) and the effective date and transition requirements for the amendments are consistent with those in Topic 606.

Accounting for Share-Based Payments When the Terms of the Award Provide That a Performance Target Could be Achieved after the Requisite Service Period

In June 2014, the FASB issued amended guidance which clarifies that a performance target that affects vesting and can be achieved after the requisite service period be treated as a performance condition. The amended guidance provides that an entity should apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The amended guidance was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The amended guidance may be adopted either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying the amended guidance as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. The Bancorp adopted the amended guidance prospectively on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity

In August 2014, the FASB issued amended guidance that provides an alternative to ASC Topic 820: Fair Value Measurement for measuring the financial assets and financial liabilities of a CFE, such as a collateralized debt obligation or a collateralized loan obligation entity consolidated as a VIE when a) all of the financial assets and the financial liabilities of that CFE are measured at fair value in the Condensed Consolidated Financial Statements and b) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. If elected, the measurement alternative would allow the Bancorp to measure both the financial assets and the financial liabilities of the CFE by using the more observable of the fair value of the financial assets or the fair value of the financial liabilities and to eliminate any measurement difference. When the measurement alternative is not elected for a consolidated CFE within the scope of this amended guidance, the amendments clarify that 1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated CFE should be measured using the requirements of Topic 820 and 2) any difference in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated CFE should be reflected in earnings and attributed to the Bancorp in the Condensed Consolidated Statements of Income. The amended guidance may be applied retrospectively or through a modified retrospective approach and was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Bancorp adopted the amended guidance on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or Equity

In November 2014, the FASB issued amended guidance that clarifies how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative features being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption

permitted. The effects of initially adopting the amended guidance should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective and shall be reported as a cumulative-effect adjustment directly to retained earnings as of the beginning of the year of adoption. The Bancorp adopted the amended guidance on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

In January 2015, the FASB issued amended guidance that eliminates the concept of extraordinary items from U.S. GAAP. Previously, an event or transaction was presumed to be an ordinary and usual activity of a reporting entity unless evidence clearly supported its classification as an extraordinary item, which had to be both unusual in nature and infrequent in occurrence. An entity was required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. An entity was also required to disclose applicable income taxes and either present or disclose earnings per share data applicable to the extraordinary item. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The amended guidance may be applied prospectively or retrospectively to all periods presented in the financial statements. The Bancorp adopted the amended guidance prospectively on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued amended guidance that changes the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amended guidance 1) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities; 2) eliminates the presumption that a general partner should consolidate a limited partnership; 3) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and 4) provides a scope exception from consolidation guidance for reporting entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amended guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The amended guidance may be applied using either a retrospective approach or a modified retrospective approach with a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The Bancorp adopted the amended guidance on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued amended guidance to address the different balance sheet presentation requirements for debt issuance costs and debt discounts and premiums. The amended guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The recognition and measurement guidance for debt issuance costs are not affected by the amended guidance. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. The amended guidance should be applied retrospectively, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the amended guidance. Upon adoption on January 1, 2016, the Bancorp reclassified approximately $34 million of debt issuance costs from other assets to a direct deduction from long-term debt in the Condensed Consolidated Balance Sheets.

Practical Expedient for the Measurement Date of an Employer s Defined Benefit Obligation and Plan Assets

In April 2015, the FASB issued amended guidance intended to simplify an entity s measurement of the fair value of plan assets of a defined benefit pension or other postretirement benefit plan when the fiscal year-end does not coincide with a month end. For an entity with a fiscal year-end that does not coincide with a month-end, the amended guidance provides a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity s fiscal year-end and apply that practical expedient consistently from year to year. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The amended guidance should be applied prospectively. The Bancorp adopted the amended guidance on January 1, 2016 and the adoption did not have an impact on the Condensed Consolidated Financial Statements as the Bancorp s fiscal year-end coincides with a month-end.

Customer s Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued amended guidance on a customer s accounting for fees paid in a cloud computing arrangement. Under the amended guidance, if a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The amended guidance may be applied either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. The Bancorp adopted the amended guidance prospectively on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share

In May 2015, the FASB issued amended guidance to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amended guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15,

2015. The amended guidance should be applied retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity s financial statements. Earlier application is permitted. The Bancorp adopted the amended guidance on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-Of-Credit Agreements

In August 2015, the FASB issued amended guidance about the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. Given the absence of authoritative guidance for debt issuance costs related to line of credit arrangements within ASU 2015-03, the amended guidance provides that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there were any outstanding borrowings on the line of credit arrangement. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amended guidance should be applied retrospectively, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the amendments. Early adoption is permitted for financial statements that have not been previously issued. The Bancorp adopted the amended guidance on January 1, 2016 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued amended guidance to simplify the accounting for adjustments made to provisional amounts recognized in a business combination. The amended guidance eliminates the requirement to retrospectively account for those adjustments and requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer shall record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amended guidance requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amended guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with earlier application permitted for financial statements that have not been issued. The amended guidance should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the amended guidance. The Bancorp adopted the amended guidance on January 1, 2016 and the adoption did not have an impact on the Condensed Consolidated Financial Statements.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued amended guidance to improve certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Specifically, the amendments significantly revise an entity s accounting related to 1) the classification and measurement of investments in equity securities, 2) the presentation of certain fair value changes for financial liabilities measured at fair value, and 3) certain disclosure requirements associated with the fair value of financial instruments. The amendments require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes as a result of an observable price change. The amendments also simplify the impairment assessment of equity investments for which fair value is not readily determinable by requiring an entity to perform a qualitative assessment to identify impairment. If qualitative indicators are identified, the entity will be required to measure the investment at fair value. For financial liabilities that an entity has elected to measure at fair value, the amendments require an entity to present separately in other comprehensive income the portion of the change in fair value that results from a change in instrument-specific credit risk. For public business entities, the amendments 1) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate fair value for financial instruments measured at amortized cost and 2) require, for disclosure purposes, the use of an exit price notion in the determination of the fair value of financial instruments. The amended guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Upon adoption, the Bancorp will be required to make a cumulative-effect adjustment to the Condensed Consolidated Balance Sheets as of the beginning of the fiscal year of adoption. The guidance on equity securities without a readily determinable fair value will be applied prospectively to all equity investments that exist as of the date of adoption of the standard. Early adoption of the amendments is not permitted with the exception of the presentation of certain fair value changes for financial liabilities measured at fair value for which early application is permitted. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Accounting for Leases

In February 2016, the FASB issued amended guidance that establishes a new accounting model for leases. The amended guidance requires lessees to record lease liabilities on the lessees balance sheets along with corresponding right-of-use assets for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the lessee s statements of income. From a lessor perspective, the accounting model is largely unchanged, except that the amended guidance includes certain targeted improvements to align, where necessary, lessor accounting with the lessee accounting model and the revenue recognition guidance in ASC Topic 606. The amendments also modify disclosure requirements for an entity s lease arrangements. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The amendments should be applied to each prior reporting period presented using a modified retrospective approach, although the amended guidance contains certain transition relief provisions that, among other things, permit an entity to elect not to reassess the classification of leases which

existed or expired as of the date the amendments are effective. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Recognition of Breakage on Certain Prepaid Stored-Value Products

In March 2016, the FASB issued amended guidance to permit proportional derecognition of the liability for unused funds on certain prepaid stored-value products (known as breakage) to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. The amendments do not apply to any prepaid stored-value products that are attached to a segregated customer deposit account, or products for which unused funds are subject to unclaimed property remittance laws. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted, and should be applied retrospectively to all comparable periods presented in the year of adoption. Entities may also elect a modified retrospective application by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

In March 2016, the FASB issued amended guidance to clarify that a change in counterparty in a derivative contract does not, in and of itself, represent a change in critical terms that would require discontinuation of hedge accounting provided that other hedge accounting criteria continue to be met. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted, and should be applied prospectively. However, entities may elect to apply a modified retrospective approach to redesignate hedges that were derecognized in a prior period presented in the financial statements because of a novation. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Contingent Put and Call Options in Debt Instruments

In March 2016, the FASB issued amended guidance to clarify the requirements for determining when contingent put and call options embedded in debt instruments should be bifurcated from the debt instrument and accounted for separately as derivatives. A four-step decision sequence should be followed in determining whether such options are clearly and closely related to the economic characteristics and risks of the debt instrument, which determines whether bifurcation is necessary. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted, and should be applied on a modified retrospective basis for debt instruments existing as of the beginning of the fiscal year for which the amendments are effective. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Simplifying Transition to the Equity Method of Accounting

In March 2016, the FASB issued amended guidance to eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting, eliminating the requirement to retrospectively apply the equity method of accounting back to the date of the initial investment. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted, and should be applied prospectively to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Accounting for Share-Based Payments to Employees

In March 2016, the FASB issued amended guidance simplifying the accounting for share-based compensation paid to employees. The amended guidance 1) requires excess tax benefits and tax deficiencies on share-based payments to employees to be recognized directly to income tax expense or benefit in the Condensed Consolidated Income Statements; 2) requires excess tax benefits to be included as operating activities on the Condensed Consolidated Statements of Cash Flows; 3) provides entities with the option of making an accounting policy election to account for forfeitures of share-based payments as they occur instead of estimating the awards expected to be forfeited; and 4) changes the threshold to qualify for equity classification to permit withholdings up to the maximum statutory tax rate in the applicable jurisdiction. In addition, excess tax benefits and tax deficiencies are considered discrete items in the reporting period they occur and are not included in the estimate of an entity s annual effective tax rate. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. The majority of the amendments should be applied using a modified retrospective approach with a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The amendments related to the presentation of excess tax benefits on the Condensed Consolidated Statements of Cash Flows may be applied prospectively or retrospectively. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued amended guidance that establishes a new approach to estimate credit losses on certain types of financial instruments. The new approach changes the impairment model for most financial assets, and will require the use of an expected credit loss model for financial instruments measured at amortized cost and certain other instruments, including trade and other receivables, loans, debt securities, net investments in leases, and off-balance-sheet credit exposures (such as loan commitments, standby letters of credit, and financial guarantees not

accounted for as insurance). This model requires entities to estimate the lifetime expected credit loss on such instruments and record an allowance that represents the portion of the amortized cost basis that the entity does not expect to collect. This allowance is deducted from the financial asset s amortized cost basis to present the net amount expected to be collected. The new expected credit loss model will also apply to purchased financial assets with credit deterioration, superseding current accounting guidance for such assets. The amended guidance also amends the impairment model for available-for-sale debt securities, requiring entities to determine whether all or a portion of the unrealized loss on such securities is a credit loss, and also eliminating the option for management to consider the length of time a security has been in an unrealized loss position as a factor in concluding whether or not a credit loss exists. The amended model states that an entity will recognize an allowance for credit losses on available-for-sale debt securities as a contra account to the amortized cost basis, instead of a direct reduction of the amortized cost basis of the investment, as under current guidance. As a result, entities will recognize improvements to estimated credit losses on available-for-sale debt securities immediately in earnings as opposed to in interest income over time. There are also additional disclosure requirements included in this guidance. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 and is to be applied on a modified retrospective basis with the cumulative effect of initially applying the amendments recognized in retained earnings at the date of initial application. However, certain provisions of the guidance are only required to be applied on a prospective basis. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2018 and interim periods within those years. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Classification of Certain Items in Statements of Cash Flows

In August 2016, the FASB issued amended guidance to clarify the classification of certain items with an entity s statements of cash flows. These items include debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of BOLI policies, distributions received from equity method investees, and beneficial interests in securitization transactions. The amended guidance also specifies how to address classification of cash receipts and payments that have aspects of more than one class of cash flows. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted, and is to be applied on a retrospective basis unless it is impractical to do so. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued amended guidance that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current U.S. GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted, and is applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the fiscal year in which the guidance is effective. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Accounting for Interests Held Through Related Parties That Are Under Common Control

In October 2016, the FASB issued amended guidance that changes the accounting for the consolidation of variable interest entities in certain situations involving entities under common control. Specifically, the amendments change how the indirect interests held through related parties that are under common control should be included in a reporting entity s evaluation of whether it is a primary beneficiary of a variable interest entity. Under the amended guidance, the reporting entity is only required to include the indirect interests held through related parties that are under common control in a variable interest entity on a proportionate basis. Currently, the indirect interests held by the related parties that are under common control are considered to be the equivalent of direct interests in their entirety. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Condensed Consolidated Financial Statements.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

4. Investment Securities

The following tables provide the amortized cost, fair value and unrealized gains and losses for the major categories of the available-for-sale and other and held-to-maturity investment securities portfolios as of:

September 30, 2016 ($ in millions)		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale and other securities:					
U.S. Treasury and federal agencies securities	**$**	**866**	**15**	**-**	**881**
Obligations of states and political subdivisions securities		**49**	**3**	**-**	**52**
Mortgage-backed securities:					
Agency residential mortgage-backed securities[(a)]		**14,671**	**519**	**(2)**	**15,188**
Agency commercial mortgage-backed securities		**8,449**	**502**	**(1)**	**8,950**
Non-agency commercial mortgage-backed securities		**2,683**	**151**	**-**	**2,834**
Asset-backed securities and other debt securities		**2,069**	**31**	**(17)**	**2,083**
Equity securities[(b)]		**699**	**3**	**(1)**	**701**
Total available-for-sale and other securities	**$**	**29,486**	**1,224**	**(21)**	**30,689**
Held-to-maturity securities:					
Obligations of states and political subdivisions securities	**$**	**55**	**-**	**-**	**55**
Asset-backed securities and other debt securities		**1**	**-**	**-**	**1**
Total held-to-maturity securities	**$**	**56**	**-**	**-**	**56**

*(a) Includes interest-only mortgage-backed securities of **$33** as of **September 30, 2016**, recorded at fair value with fair value changes recorded in securities gains, net, in the Condensed Consolidated Statements of Income.*

*(b) Equity securities consist of FHLB, FRB and DTCC restricted stock holdings of **$248**, **$357** and **$1**, respectively, at **September 30, 2016**, that are carried at cost, and certain mutual fund and equity security holdings.*

December 31, 2015 ($ in millions)		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale and other securities:					
U.S. Treasury and federal agencies securities	$	1,155	32	-	1,187
Obligations of states and political subdivisions securities		50	2	-	52
Mortgage-backed securities:					
Agency residential mortgage-backed securities[(a)]		14,811	283	(13)	15,081
Agency commercial mortgage-backed securities		7,795	100	(33)	7,862

Non-agency commercial mortgage-backed securities		2,801	35	(32)	2,804
Asset-backed securities and other debt securities		1,363	13	(21)	1,355
Equity securities[(b)]		703	2	(2)	703
Total available-for-sale and other securities	$	28,678	467	(101)	29,044
Held-to-maturity securities:					
Obligations of states and political subdivisions securities	$	68	-	-	68
Asset-backed securities and other debt securities		2	-	-	2
Total held-to-maturity securities	$	70	-	-	70

(a) Includes interest-only mortgage-backed securities of $50 as of December 31, 2015, recorded at fair value with fair value changes recorded in securities gains, net, in the Condensed Consolidated Statements of Income.

(b) Equity securities consist of FHLB, FRB and DTCC restricted stock holdings of $248, $355, and $1, respectively, at December 31, 2015, that are carried at cost, and certain mutual fund and equity security holdings.

The following table presents realized gains and losses that were recognized in income from available-for-sale securities:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Realized gains	**$ 13**	35	**42**	79
Realized losses	**(9)**	(25)	**(16)**	(58)
OTTI	**(2)**	-	**(8)**	(5)
Net realized gains[(a)]	**$ 2**	10	**18**	16

*(a) Excludes net gains on interest-only mortgage-backed securities of an immaterial amount and net losses of **$8** for the three and nine months ended **September 30, 2016**, respectively, and net losses on interest-only mortgage-backed securities of $7 and $4 for the three and nine months ended September 30, 2015, respectively.*

The following table provides a summary of OTTI by security type:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Available-for-sale and other debt securities	**$ (2)**	-	**(7)**	(5)
Available-for-sale equity securities	**-**	-	**(1)**	-
Total OTTI[(a)]	**$ (2)**	-	**(8)**	(5)

(a) Included in securities gains, net, in the Condensed Consolidated Statements of Income.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Trading securities were $431 million as of September 30, 2016, compared to $386 million at December 31, 2015. The following table presents total gains and losses that were recognized in income from trading securities:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Realized gains[(a)]	**$ 2**	1	**7**	4
Realized losses[(b)]	**(2)**	(2)	**(8)**	(7)
Net unrealized gains (losses)[(c)]	**2**	(3)	**3**	(4)
Total trading securities gains (losses)	**$ 2**	(4)	**2**	(7)

*(a) Includes realized gains of **$1** and **$6** for the three and nine months ended **September 30, 2016**, respectively, and $1 and $3 for the three and nine months ended September 30, 2015, respectively, recorded in corporate banking revenue and wealth and asset management revenue in the Condensed Consolidated Statements of Income.*

*(b) Includes realized losses of **$1** and **$7** for the three and nine months ended **September 30, 2016**, respectively, and $2 and $7 for the three and nine months ended September 30, 2015, respectively, recorded in corporate banking revenue and wealth and asset management revenue in the Condensed Consolidated Statements of Income.*

*(c) Includes an immaterial amount of net unrealized losses during the three months ended **September 30, 2016** and an immaterial amount of net unrealized gains during the nine months ended **September 30, 2016** and the three and nine months ended September 30, 2015, recorded in corporate banking revenue and wealth and asset management revenue in the Condensed Consolidated Statements of Income.*

At September 30, 2016 and December 31, 2015, securities with a fair value of $9.3 billion and $11.0 billion, respectively, were pledged to secure borrowings, public deposits, trust funds, derivative contracts and for other purposes as required or permitted by law.

The expected maturity distribution of the Bancorp s mortgage-backed securities and the contractual maturity distribution of the remainder of the Bancorp s available-for-sale and other and held-to-maturity investment securities as of September 30, 2016 are shown in the following table:

	Available-for-Sale and Other		Held-to-Maturity	
($ in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities:[(a)]				
Less than 1 year	$ 1,011	1,026	30	30
1-5 years	12,264	12,695	12	12
5-10 years	13,556	14,284	12	12
Over 10 years	1,956	1,983	2	2

Equity securities		699	701	-	-
Total	$	29,486	30,689	56	56

(a) Actual maturities may differ from contractual maturities when a right to call or prepay obligations exists with or without call or prepayment penalties.

The following table provides the fair value and gross unrealized losses on available-for-sale and other securities in an unrealized loss position, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of:

		Less than 12 months		12 months or more		Total	
($ in millions)		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016							
Agency residential mortgage-backed securities	**$**	**-**	**-**	**193**	**(2)**	**193**	**(2)**
Agency commercial mortgage-backed securities		**106**	**(1)**	**-**	**-**	**106**	**(1)**
Asset-backed securities and other debt securities		**445**	**(8)**	**272**	**(9)**	**717**	**(17)**
Equity securities		**-**	**-**	**31**	**(1)**	**31**	**(1)**
Total	**$**	**551**	**(9)**	**496**	**(12)**	**1,047**	**(21)**
December 31, 2015							
Agency residential mortgage-backed securities	$	2,903	(13)	-	-	2,903	(13)
Agency commercial mortgage-backed securities		3,111	(33)	-	-	3,111	(33)
Non-agency commercial mortgage-backed securities		1,610	(32)	-	-	1,610	(32)
Asset-backed securities and other debt securities		623	(11)	226	(10)	849	(21)
Equity securities		1	(1)	37	(1)	38	(2)
Total	$	8,248	(90)	263	(11)	8,511	(101)

At September 30, 2016, 2% of unrealized losses in the available-for-sale and other securities portfolio were represented by non-rated securities, compared to 1% at December 31, 2015.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

5. Loans and Leases

The Bancorp diversifies its loan and lease portfolio by offering a variety of loan and lease products with various payment terms and rate structures. Lending activities are generally concentrated within those states in which the Bancorp has banking centers and are primarily located in the Midwestern and Southeastern regions of the U.S.. The Bancorp s commercial loan portfolio consists of lending to various industry types. Management periodically reviews the performance of its loan and lease products to evaluate whether they are performing within acceptable interest rate and credit risk levels and changes are made to underwriting policies and procedures as needed. The Bancorp maintains an allowance to absorb loan and lease losses inherent in the portfolio. For further information on credit quality and the ALLL, refer to Note 6.

The following table provides a summary of commercial loans and leases classified by primary purpose and consumer loans and leases classified based upon product or collateral as of:

($ in millions)		**September 30, 2016**	December 31, 2015
Loans held for sale:			
Commercial and industrial loans	**$**	**102**	20
Commercial mortgage loans		**4**	34
Residential mortgage loans		**954**	708
Home equity		**-**	35
Automobile loans		**-**	4
Credit card		**-**	101
Other consumer loans and leases		**-**	1
Total loans held for sale	**$**	**1,060**	903
Portfolio loans and leases:			
Commercial and industrial loans	**$**	**42,727**	42,131
Commercial mortgage loans		**6,856**	6,957
Commercial construction loans		**3,905**	3,214
Commercial leases		**3,995**	3,854
Total commercial loans and leases	**$**	**57,483**	56,156
Residential mortgage loans		**14,643**	13,716
Home equity		**7,864**	8,301
Automobile loans		**10,349**	11,493
Credit card		**2,169**	2,259
Other consumer loans and leases		**643**	657
Total consumer loans and leases	**$**	**35,668**	36,426
Total portfolio loans and leases	**$**	**93,151**	92,582

Total portfolio loans and leases are recorded net of unearned income, which totaled $529 million as of September 30, 2016 and $624 million as of December 31, 2015. Additionally, portfolio loans and leases are recorded net of unamortized premiums and discounts, deferred loan fees and costs and fair value adjustments (associated with acquired loans or loans designated at fair value upon origination) which totaled a net premium of $234 million and $220 million as of September 30, 2016 and December 31, 2015, respectively.

The Bancorp s FHLB and FRB advances are generally secured by loans. The Bancorp had loans of $13.1 billion and $11.9 billion at September 30, 2016 and December 31, 2015, respectively, pledged at the FHLB, and loans of $33.3 billion and $33.7 billion at September 30, 2016 and December 31, 2015, respectively, pledged at the FRB.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table presents a summary of the total loans and leases owned by the Bancorp as of:

($ in millions)		**September 30, 2016**	December 31, 2015	**September 30, 2016**	December 31, 2015
		Carrying Value		90 Days Past Due and Still Accruing	
Commercial and industrial loans	**$**	**42,829**	42,151	**7**	7
Commercial mortgage loans		**6,860**	6,991	**-**	-
Commercial construction loans		**3,905**	3,214	**-**	-
Commercial leases		**3,995**	3,854	**-**	-
Residential mortgage loans		**15,597**	14,424	**43**	40
Home equity		**7,864**	8,336	**-**	-
Automobile loans		**10,349**	11,497	**8**	10
Credit card		**2,169**	2,360	**18**	18
Other consumer loans and leases		**643**	658	**-**	-
Total loans and leases	**$**	**94,211**	93,485	**76**	75
Less: Loans held for sale		**1,060**	903		
Total portfolio loans and leases	**$**	**93,151**	92,582		

The following table presents a summary of net charge-offs (recoveries):

		For the three months ended		For the nine months ended	
($ in millions)		September 30, **2016**	2015	September 30, **2016**	2015
Commercial and industrial loans	**$**	**61**	128	**147**	200
Commercial mortgage loans		**2**	11	**14**	24
Commercial construction loans		**-**	3	**(1)**	3
Commercial leases		**-**	-	**3**	-
Residential mortgage loans		**2**	3	**7**	14
Home equity		**7**	9	**20**	31
Automobile loans		**9**	7	**26**	19
Credit card		**20**	21	**61**	63
Other consumer loans and leases		**6**	6	**12**	12
Total net charge-offs	**$**	**107**	188	**289**	366

75

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

6. Credit Quality and the Allowance for Loan and Lease Losses

The Bancorp disaggregates ALLL balances and transactions in the ALLL by portfolio segment. Credit quality related disclosures for loans and leases are further disaggregated by class.

Allowance for Loan and Lease Losses

The following tables summarize transactions in the ALLL by portfolio segment:

For the three months ended September 30, 2016 ($ in millions)		Commercial	Residential Mortgage	Consumer	Unallocated	Total
Balance, beginning of period	$	873	98	211	117	1,299
Losses charged-off		**(81)**	**(4)**	**(52)**	**-**	**(137)**
Recoveries of losses previously charged-off		**18**	**2**	**10**	**-**	**30**
Provision for loan and lease losses		**44**	**-**	**38**	**(2)**	**80**
Balance, end of period	**$**	**854**	**96**	**207**	**115**	**1,272**

For the three months ended September 30, 2015 ($ in millions)		Commercial	Residential Mortgage	Consumer	Unallocated	Total
Balance, beginning of period	$	855	104	231	103	1,293
Losses charged-off		(149)	(6)	(54)	-	(209)
Recoveries of losses previously charged-off		7	3	11	-	21
Provision for (benefit from) loan and lease losses		115	(3)	33	11	156
Balance, end of period	$	828	98	221	114	1,261

For the nine months ended September 30, 2016 ($ in millions)		Commercial	Residential Mortgage	Consumer	Unallocated	Total
Balance, beginning of period	$	840	100	217	115	1,272
Losses charged-off		**(192)**	**(14)**	**(153)**	**-**	**(359)**
Recoveries of losses previously charged-off		**29**	**7**	**34**	**-**	**70**
Provision for loan and lease losses		**177**	**3**	**109**	**-**	**289**
Balance, end of period	**$**	**854**	**96**	**207**	**115**	**1,272**

For the nine months ended September 30, 2015 ($ in millions)		Commercial	Residential Mortgage	Consumer	Unallocated	Total
Balance, beginning of period	$	875	104	237	106	1,322
Losses charged-off		(251)	(23)	(163)	-	(437)
Recoveries of losses previously charged-off		24	9	38	-	71

Provision for loan and lease losses		180	8	109	8	305
Balance, end of period	$	828	98	221	114	1,261

The following tables provide a summary of the ALLL and related loans and leases classified by portfolio segment:

As of September 30, 2016 ($ in millions)		Commercial	Residential Mortgage	Consumer	Unallocated	Total
ALLL:[(a)]						
Individually evaluated for impairment	**$**	**96** [(c)]	**68**	**43**	**-**	**207**
Collectively evaluated for impairment		**758**	**28**	**164**	**-**	**950**
Unallocated		**-**	**-**	**-**	**115**	**115**
Total ALLL	**$**	**854**	**96**	**207**	**115**	**1,272**
Portfolio loans and leases:[(b)]						
Individually evaluated for impairment	**$**	**906** [(c)]	**651**	**384**	**-**	**1,941**
Collectively evaluated for impairment		**56,577**	**13,840**	**20,641**	**-**	**91,058**
Loans acquired with deteriorated credit quality		**-**	**3**	**-**	**-**	**3**
Total portfolio loans and leases	**$**	**57,483**	**14,494**	**21,025**	**-**	**93,002**

*(a) Includes **$2** related to leveraged leases at **September 30, 2016**.*

*(b) Excludes **$149** of residential mortgage loans measured at fair value, and includes **$725** of leveraged leases, net of unearned income at **September 30, 2016**.*

*(c) Includes five restructured loans at **September 30, 2016** associated with a consolidated VIE in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party, with a recorded investment of **$27** and an ALLL of **$18**.*

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

As of December 31, 2015 ($ in millions)		Commercial	Residential Mortgage	Consumer	Unallocated	Total
ALLL:[(a)]						
Individually evaluated for impairment	$	119 [(c)]	67	49	-	235
Collectively evaluated for impairment		721	33	168	-	922
Unallocated		-	-	-	115	115
Total ALLL	$	840	100	217	115	1,272
Portfolio loans and leases:[(b)]						
Individually evaluated for impairment	$	815 [(c)]	630	424	-	1,869
Collectively evaluated for impairment		55,341	12,917	22,286	-	90,544
Loans acquired with deteriorated credit quality		-	2	-	-	2
Total portfolio loans and leases	$	56,156	13,549	22,710	-	92,415

(a) Includes $5 related to leveraged leases at December 31, 2015.

(b) Excludes $167 of residential mortgage loans measured at fair value, and includes $801 of leveraged leases, net of unearned income at December 31, 2015.

(c) Includes five restructured loans at December 31, 2015 associated with a consolidated VIE in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party, with a recorded investment of $27 and an ALLL of $15.

CREDIT RISK PROFILE

Commercial Portfolio Segment

For purposes of analyzing historical loss rates used in the determination of the ALLL and monitoring the credit quality and risk characteristics of its commercial portfolio segment, the Bancorp disaggregates the segment into the following classes: commercial and industrial, commercial mortgage owner-occupied, commercial mortgage nonowner-occupied, commercial construction and commercial leases.

To facilitate the monitoring of credit quality within the commercial portfolio segment, and for purposes of analyzing historical loss rates used in the determination of the ALLL for the commercial portfolio segment, the Bancorp utilizes the following categories of credit grades: pass, special mention, substandard, doubtful and loss. The five categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter.

Pass ratings, which are assigned to those borrowers that do not have identified potential or well defined weaknesses and for which there is a high likelihood of orderly repayment, are updated at least annually based on the size and credit characteristics of the borrower. All other categories are updated on a quarterly basis during the month preceding the end of the calendar quarter.

The Bancorp assigns a special mention rating to loans and leases that have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or lease or the Bancorp s credit position.

The Bancorp assigns a substandard rating to loans and leases that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans and leases have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans and leases in this grade also are characterized by the distinct possibility that the Bancorp will sustain some loss if the deficiencies noted are not addressed and corrected.

The Bancorp assigns a doubtful rating to loans and leases that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

Loans and leases classified as loss are considered uncollectible and are charged-off in the period in which they are determined to be uncollectible. Because loans and leases in this category are fully charged-off, they are not included in the following tables.

The following tables summarize the credit risk profile of the Bancorp s commercial portfolio segment, by class:

As of September 30, 2016 ($ in millions)		Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial loans	$	**39,592**	**1,471**	**1,664**	**-**	**42,727**
Commercial mortgage owner-occupied loans		**3,269**	**74**	**134**	**-**	**3,477**
Commercial mortgage nonowner-occupied loans		**3,266**	**25**	**88**	**-**	**3,379**
Commercial construction loans		**3,900**	**5**	**-**	**-**	**3,905**
Commercial leases		**3,914**	**43**	**38**	**-**	**3,995**
Total commercial loans and leases	$	**53,941**	**1,618**	**1,924**	**-**	**57,483**

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

As of December 31, 2015 ($ in millions)		Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial loans	$	38,756	1,633	1,742	-	42,131
Commercial mortgage owner-occupied loans		3,344	124	191	-	3,659
Commercial mortgage nonowner-occupied loans		3,105	63	130	-	3,298
Commercial construction loans		3,201	4	9	-	3,214
Commercial leases		3,724	93	37	-	3,854
Total commercial loans and leases	$	52,130	1,917	2,109	-	56,156

Residential Mortgage and Consumer Portfolio Segments

For purposes of monitoring the credit quality and risk characteristics of its consumer portfolio segment, the Bancorp disaggregates the segment into the following classes: home equity, automobile loans, credit card and other consumer loans and leases. The Bancorp s residential mortgage portfolio segment is also a separate class.

The Bancorp considers repayment performance as the best indicator of credit quality for residential mortgage and consumer loans, which includes both the delinquency status and performing versus nonperforming status of the loans. The delinquency status of all residential mortgage and consumer loans is presented by class in the age analysis section while the performing versus nonperforming status is presented in the following table. Refer to the nonaccrual loans and leases section of Note 1 in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015 for additional delinquency and nonperforming information.

The following table presents a summary of the Bancorp s residential mortgage and consumer portfolio segments, by class, disaggregated into performing versus nonperforming status as of:

	September 30, 2016		December 31, 2015	
($ in millions)	Performing	Nonperforming	Performing	Nonperforming
Residential mortgage loans[(a)]	**$ 14,462**	**32**	13,498	51
Home equity	**7,786**	**78**	8,222	79
Automobile loans	**10,347**	**2**	11,491	2
Credit card	**2,140**	**29**	2,226	33
Other consumer loans and leases	**643**	**-**	657	-
Total residential mortgage and consumer loans and leases[(a)]	**$ 35,378**	**141**	36,094	165

*(a) Excludes **$149** and $167 of loans measured at fair value at **September 30, 2016** and December 31, 2015, respectively.*

Age Analysis of Past Due Loans and Leases

The following tables summarize the Bancorp s recorded investment in portfolio loans and leases, by age and class:

As of September 30, 2016 ($ in millions)	Current Loans and Leases[c]	Past Due 30-89 Days[c]	Past Due 90 Days or More[c]	Past Due Total Past Due	Total Loans and Leases	90 Days Past Due and Still Accruing
Commercial loans and leases:						
Commercial and industrial loans	$ 42,587	31	109	140	42,727	7
Commercial mortgage owner-occupied loans	3,442	7	28	35	3,477	-
Commercial mortgage nonowner-occupied loans	3,371	1	7	8	3,379	-
Commercial construction loans	3,905	-	-	-	3,905	-
Commercial leases	3,993	-	2	2	3,995	-
Residential mortgage loans[a][b]	14,388	32	74	106	14,494	43
Consumer loans and leases:						
Home equity	7,740	65	59	124	7,864	-
Automobile loans	10,266	72	11	83	10,349	8
Credit card	2,121	27	21	48	2,169	18
Other consumer loans and leases	642	1	-	1	643	-
Total portfolio loans and leases[a]	$ 92,455	236	311	547	93,002	76

*(a) Excludes **$149** of residential mortgage loans measured at fair value at **September 30, 2016**.*

*(b) 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, 2016**, **$112** of these loans were 30-89 days past due and **$287** were 90 days or more past due. The Bancorp recognized **$2** and **$5** of losses during the three and nine months ended **September 30, 2016**, respectively, due to claim denials and curtailments associated with these insured or guaranteed loans.*

(c) Includes accrual and nonaccrual loans and leases.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

As of December 31, 2015 ($ in millions)	Current Loans and Leases[c]	Past Due 30-89 Days[c]	Past Due 90 Days or More[c]	Total Past Due	Total Loans and Leases	90 Days Past Due and Still Accruing
Commercial loans and leases:						
Commercial and industrial loans	$ 41,996	55	80	135	42,131	7
Commercial mortgage owner-occupied loans	3,610	15	34	49	3,659	-
Commercial mortgage nonowner-occupied loans	3,262	9	27	36	3,298	-
Commercial construction loans	3,214	-	-	-	3,214	-
Commercial leases	3,850	3	1	4	3,854	-
Residential mortgage loans[a][b]	13,420	37	92	129	13,549	40
Consumer loans and leases:						
Home equity	8,158	82	61	143	8,301	-
Automobile loans	11,407	75	11	86	11,493	10
Credit card	2,207	29	23	52	2,259	18
Other consumer loans and leases	656	1	-	1	657	-
Total portfolio loans and leases[a]	$ 91,780	306	329	635	92,415	75

(a) Excludes $167 of residential mortgage loans measured at fair value at December 31, 2015.

(b) 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, 2015, $102 of these loans were 30-89 days past due and $335 were 90 days or more past due. The Bancorp recognized $2 and $6 of losses during the three and nine months ended September 30, 2015, respectively, due to claim denials and curtailments associated with these insured or guaranteed loans.

(c) Includes accrual and nonaccrual loans and leases.

Impaired Portfolio Loans and Leases

Larger commercial loans and leases included within aggregate borrower relationship balances exceeding $1 million that exhibit probable or observed credit weaknesses are subject to individual review for impairment. The Bancorp also performs an individual review on loans and leases that are restructured in a TDR. The Bancorp considers the current value of collateral, credit quality of any guarantees, the loan structure and other factors when evaluating whether an individual loan or lease is impaired. Other factors may include the geography and industry of the borrower, size and financial condition of the borrower, cash flow and leverage of the borrower, and the Bancorp s evaluation of the borrower s management. Smaller-balance homogenous loans or leases that are collectively evaluated for impairment are not included in the following tables.

The following tables summarize the Bancorp s impaired portfolio loans and leases, by class, that were subject to individual review, which includes all portfolio loans and leases restructured in a TDR:

As of September 30, 2016 ($ in millions)		Unpaid Principal Balance	Recorded Investment	ALLL
With a related ALLL:				
Commercial loans and leases:				
Commercial and industrial loans	$	433	375	74
Commercial mortgage owner-occupied loans[(b)]		22	13	2
Commercial mortgage nonowner-occupied loans		13	11	2
Restructured residential mortgage loans		474	470	68
Restructured consumer loans and leases:				
Home equity		210	210	30
Automobile loans		14	14	1
Credit card		54	54	12
Total impaired portfolio loans and leases with a related ALLL	$	1,220	1,147	189
With no related ALLL:				
Commercial loans and leases:				
Commercial and industrial loans	$	382	311	-
Commercial mortgage owner-occupied loans		49	46	-
Commercial mortgage nonowner-occupied loans		132	117	-
Commercial leases		6	6	-
Restructured residential mortgage loans		202	181	-
Restructured consumer loans and leases:				
Home equity		108	104	-
Automobile loans		3	2	-
Total impaired portfolio loans and leases with no related ALLL	$	882	767	-
Total impaired portfolio loans and leases	$	2,102	1,914 [(a)]	189

*(a) Includes **$408**, **$638** and **$334**, respectively, of commercial, residential mortgage and consumer portfolio TDRs on accrual status and **$194**, **$13** and **$50**, respectively, of commercial, residential mortgage and consumer portfolio TDRs on nonaccrual status at **September 30, 2016**.*

*(b) Excludes five restructured loans at **September 30, 2016** associated with a consolidated VIE in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party, with an unpaid principal balance of **$27**, a recorded investment of **$27** and an ALLL of **$18**.*

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

As of December 31, 2015 ($ in millions)		Unpaid Principal Balance	Recorded Investment	ALLL
With a related ALLL:				
Commercial loans and leases:				
Commercial and industrial loans	$	412	346	84
Commercial mortgage owner-occupied loans[(b)]		28	21	5
Commercial mortgage nonowner-occupied loans		75	64	12
Commercial construction loans		4	4	2
Commercial leases		3	3	1
Restructured residential mortgage loans		450	444	67
Restructured consumer loans and leases:				
Home equity		226	225	32
Automobile loans		17	16	2
Credit card		61	61	15
Total impaired portfolio loans and leases with a related ALLL	$	1,276	1,184	220
With no related ALLL:				
Commercial loans and leases:				
Commercial and industrial loans	$	228	182	-
Commercial mortgage owner-occupied loans		54	51	-
Commercial mortgage nonowner-occupied loans		126	111	-
Commercial construction loans		9	5	-
Commercial leases		1	1	-
Restructured residential mortgage loans		210	186	-
Restructured consumer loans and leases:				
Home equity		122	119	-
Automobile loans		3	3	-
Total impaired portfolio loans and leases with no related ALLL	$	753	658	-
Total impaired portfolio loans and leases	$	2,029	1,842 [(a)]	220

(a) Includes $491, $607 and $327, respectively, of commercial, residential mortgage and consumer portfolio TDRs on accrual status and $203, $23 and $52, respectively, of commercial, residential mortgage and consumer portfolio TDRs on nonaccrual status at December 31, 2015.

(b) Excludes five restructured loans at December 31, 2015 associated with a consolidated VIE in which the Bancorp has no continuing credit risk due to the risk being assumed by a third party, with an unpaid principal balance of $27, a recorded investment of $27 and an ALLL of $15.

The following tables summarize the Bancorp s average impaired portfolio loans and leases, by class, and interest income, by class:

($ in millions)	For the three months ended September 30, 2016 Average Recorded Investment	For the three months ended September 30, 2016 Interest Income Recognized	For the nine months ended September 30, 2016 Average Recorded Investment	For the nine months ended September 30, 2016 Interest Income Recognized
Commercial loans and leases:				
Commercial and industrial loans	$ 725	4	685	8
Commercial mortgage owner-occupied loans[(a)]	62	-	66	1
Commercial mortgage nonowner-occupied loans	139	2	152	4
Commercial construction loans	-	-	3	-
Commercial leases	7	-	6	-
Restructured residential mortgage loans	651	6	646	19
Restructured consumer loans and leases:				
Home equity	318	3	330	9
Automobile loans	16	-	18	-
Credit card	55	1	57	4
Total average impaired portfolio loans and leases	$ 1,973	16	1,963	45

*(a) Excludes five restructured 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, with an average recorded investment of **$27** and an immaterial amount of interest income recognized for both the three and nine months ended **September 30, 2016**.*

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

	For the three months ended September 30, 2015		For the nine months ended September 30, 2015	
($ in millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial loans and leases:				
Commercial and industrial loans	$ 635	5	$ 696	17
Commercial mortgage owner-occupied loans[(a)]	84	-	98	1
Commercial mortgage nonowner-occupied loans	210	2	236	5
Commercial construction loans	35	-	49	1
Commercial leases	6	-	6	-
Restructured residential mortgage loans	611	6	576	17
Restructured consumer loans and leases:				
Home equity	355	3	366	10
Automobile loans	21	-	23	-
Credit card	65	1	70	4
Total average impaired loans and leases	$ 2,022	17	$ 2,120	55

(a) Excludes five restructured 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, with an average recorded investment of $28 and an immaterial amount of interest income recognized for both the three and nine months ended September 30, 2015.

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.

The following table presents the Bancorp s nonaccrual loans and leases, by class, and OREO and other repossessed property as of:

($ in millions)	**September 30, 2016**	December 31, 2015
Commercial loans and leases:		
Commercial and industrial loans	**$ 409** [(a)]	259

Commercial mortgage owner-occupied loans[(b)]		**38**	46
Commercial mortgage nonowner-occupied loans		**10**	35
Commercial leases		**3**	1
Total nonaccrual portfolio commercial loans and leases		**460** *(a)*	341
Residential mortgage loans		**32**	51
Consumer loans and leases:			
Home equity		**78**	79
Automobile loans		**2**	2
Credit card		**29**	33
Total nonaccrual portfolio consumer loans and leases		**109**	114
Total nonaccrual portfolio loans and leases[(c)(d)]	**$**	**601** *(a)*	506
OREO and other repossessed property		**97**	141
Total nonperforming portfolio assets[(c)(d)]	**$**	**698** *(a)*	647

*(a) Nonaccrual portfolio loans and leases at **September 30, 2016** were adjusted by **$15** to reflect the identification of certain commercial and industrial loans as nonaccrual after the Bancorp s Form 8-K was filed on October 20, 2016.*

*(b) Excludes **$20** of restructured nonaccrual loans at both **September 30, 2016** and December 31, 2015 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 **$100** and $12 of nonaccrual loans held for sale at **September 30, 2016** and December 31, 2015, respectively.*

*(d) Includes **$4** and $6 of nonaccrual government insured commercial loans whose repayments are insured by the SBA at **September 30, 2016** and December 31, 2015, respectively, and **$1** and $2 of restructured nonaccrual government insured commercial loans at **September 30, 2016** and December 31, 2015, respectively.*

The Bancorp s recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction was $245 million and $303 million as of September 30, 2016 and December 31, 2015, respectively.

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. Within each of the Bancorp s loan classes, TDRs 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. Modifying the terms of a loan may result in an increase or decrease to the ALLL depending upon the terms modified, the method used to measure the ALLL for a loan prior to modification, and whether any charge-offs were recorded on the loan before or at the time of modification. Refer to the ALLL section of Note 1 in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015 for information on the Bancorp s ALLL methodology. Upon modification of a loan, the Bancorp measures the related impairment as the difference between the estimated future cash flows expected to be collected on the modified loan, discounted at the original effective yield of the loan, and the carrying value of the loan.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The resulting measurement may result in the need for minimal or no allowance because it is probable that all cash flows will be collected under the modified terms of the loan. In addition, if the stated interest rate was increased in a TDR, the cash flows on the modified loan, using the pre-modification interest rate as the discount rate, often exceed the recorded investment of the loan. Conversely, upon a modification that reduces the stated interest rate on a loan, the Bancorp recognizes an impairment loss as an increase to the ALLL. If a TDR involves a reduction of the principal balance of the loan or the loan s accrued interest, that amount is charged off to the ALLL.

As of September 30, 2016, the Bancorp had $80 million and $57 million in line of credit and letter of credit commitments, respectively, compared to $39 million and $23 million in line of credit and letter of credit commitments as of December 31, 2015, respectively, to lend additional funds to borrowers whose terms have been modified in a TDR.

The following tables provide a summary of loans and leases, by class, modified in a TDR by the Bancorp during the three months ended:

September 30, 2016 ($ in millions)[(a)]	Number of loans modified in a TDR during the period[(b)]	Recorded investment in loans modified in a TDR during the period	Increase to ALLL upon modification	Charge-offs recognized upon modification
Commercial loans and leases:				
Commercial and industrial loans	**12**	**$ 41**	**10**	**-**
Commercial mortgage owner-occupied loans	**1**	**1**	**-**	**-**
Commercial leases	**5**	**16**	**-**	**-**
Residential mortgage loans	**240**	**38**	**2**	**-**
Consumer loans:				
Home equity	**57**	**5**	**-**	**-**
Automobile loans	**52**	**1**	**-**	**-**
Credit card	**2,320**	**10**	**2**	**1**
Total portfolio loans and leases	**2,687**	**$ 112**	**14**	**1**

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality which were accounted for within a pool.

(b) Represents number of loans post-modification and excludes loans previously modified in a TDR.

September 30, 2015 ($ in millions)[a]	Number of loans modified in a TDR during the period[b]	Recorded investment in loans modified in a TDR during the period	Increase to ALLL upon modification	Charge-offs recognized upon modification
Commercial loans:				
Commercial and industrial loans	15	$ 17	7	-
Commercial mortgage owner-occupied loans	1	-	-	-
Residential mortgage loans	301	44	3	-
Consumer loans:				
Home equity	60	4	-	-
Automobile loans	98	2	-	-
Credit card	3,076	15	3	2
Total portfolio loans	3,551	$ 82	13	2

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality which were accounted for within a pool.

(b) Represents number of loans post-modification and excludes loans previously modified in a TDR.

The following tables provide a summary of loans and leases, by class, modified in a TDR by the Bancorp during the nine months ended:

September 30, 2016 ($ in millions)[a]	Number of loans modified in a TDR during the period[b]	Recorded investment in loans modified in a TDR during the period	Increase (Decrease) to ALLL upon modification	Charge-offs recognized upon modification
Commercial loans and leases:				
Commercial and industrial loans	**56**	**$ 158**	**19**	**-**
Commercial mortgage owner-occupied loans	**11**	**9**	**(2)**	**-**
Commercial mortgage nonowner-occupied loans	**4**	**5**	**1**	**-**
Commercial leases	**5**	**16**	**-**	**-**
Residential mortgage loans	**745**	**111**	**6**	**-**
Consumer loans:				
Home equity	**183**	**12**	**-**	**-**
Automobile loans	**188**	**3**	**-**	**-**
Credit card	**7,174**	**33**	**6**	**3**
Total portfolio loans and leases	**8,366**	**$ 347**	**30**	**3**

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality which were accounted for within a pool.

(b) Represents number of loans post-modification and excludes loans previously modified in a TDR.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

September 30, 2015 ($ in millions)[a]	Number of loans modified in a TDR during the period[b]	Recorded investment in loans modified in a TDR during the period	Increase (Decrease) to ALLL upon modification	Charge-offs recognized upon modification
Commercial loans:				
Commercial and industrial loans	63	$ 105	7	3
Commercial mortgage owner-occupied loans	14	15	(2)	-
Commercial mortgage nonowner-occupied loans	11	7	-	-
Residential mortgage loans	855	121	7	-
Consumer loans:				
Home equity	203	11	(1)	-
Automobile loans	357	6	-	-
Credit card	9,724	49	10	5
Total portfolio loans	11,227	$ 314	21	8

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality which were accounted for within a pool.

(b) Represents number of loans post-modification and excludes loans previously modified in a TDR.

The Bancorp considers TDRs that become 90 days or more past due under the modified terms as subsequently defaulted. For commercial loans not subject to individual review for impairment, loss rates that are applied for purposes of determining the ALLL include historical losses associated with subsequent defaults on loans previously modified in a TDR. For consumer loans, the Bancorp performs a qualitative assessment of the adequacy of the consumer ALLL by comparing the consumer ALLL to forecasted consumer losses over the projected loss emergence period (the forecasted losses include the impact of subsequent defaults of consumer TDRs). When a residential mortgage, home equity, automobile or other consumer loan that has been modified in a TDR subsequently defaults, the present value of expected cash flows used in the measurement of the potential impairment loss is generally limited to the expected net proceeds from the sale of the loan s underlying collateral and any resulting impairment loss is reflected as a charge-off or an increase in ALLL. The Bancorp recognizes ALLL for the entire balance of the credit card loans modified in a TDR that subsequently default.

The following tables provide a summary of TDRs that subsequently defaulted during the three months ended September 30, 2016 and 2015 and were within twelve months of the restructuring date:

September 30, 2016 ($ in millions)[a]	Number of Contracts	Recorded Investment
Commercial loans and leases:		
Commercial and industrial loans	**1**	**$ 1**

Commercial leases	**2**		**1**
Residential mortgage loans	**41**		**6**
Consumer loans:			
Home equity	**3**		**-**
Credit card	**458**		**2**
Total portfolio loans and leases			**10**
	505	**$**	

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality.

September 30, 2015 ($ in millions)[(a)]	Number of Contracts		Recorded Investment
Residential mortgage loans	31	$	5
Consumer loans:			
Home equity	4		-
Credit card	140		-
Total portfolio loans	175	$	5

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality.

The following tables provide a summary of TDRs that subsequently defaulted during the nine months ended September 30, 2016 and 2015 and were within twelve months of the restructuring date:

September 30, 2016 ($ in millions)[(a)]	Number of Contracts		Recorded Investment
Commercial loans and leases:			
Commercial and industrial loans	**4**	**$**	**4**
Commercial mortgage nonowner-occupied loans	**2**		**-**
Commercial leases	**2**		**1**
Residential mortgage loans	**127**		**18**
Consumer loans:			
Home equity	**11**		**1**
Credit card	**1,232**		**5**
Total portfolio loans and leases			**29**
	1,378	**$**	

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

September 30, 2015 ($ in millions)[(a)]	Number of Contracts		Recorded Investment
Commercial loans:			
Commercial and industrial loans	4	$	7
Residential mortgage loans	101		14
Consumer loans:			
Home equity	12		1
Automobile loans	8		-
Credit card	1,285		6
Total portfolio loans	1,410	$	28

(a) Excludes all loans and leases held for sale and loans acquired with deteriorated credit quality.

7. Bank Premises and Equipment

The following table provides a summary of bank premises and equipment as of:

($ in millions)		**September 30, 2016**	December 31, 2015
Land and improvements[(a)]	**$**	**663**	685
Buildings		**1,658**	1,755
Equipment		**1,725**	1,696
Leasehold improvements		**394**	403
Construction in progress		**110**	85
Bank premises and equipment held for sale:			
Land and improvements		**34**	55
Buildings		**10**	20
Equipment		**1**	3
Leasehold improvements		**-**	3
Accumulated depreciation and amortization		**(2,511)**	(2,466)
Total bank premises and equipment	**$**	**2,084**	2,239

*(a) At **September 30, 2016** and December 31, 2015, land and improvements included **$94** and $102, respectively, associated with parcels of undeveloped land intended for future branch expansion.*

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 certain operating branch locations and certain parcels of undeveloped land that had been acquired by the Bancorp for future branch expansion (the Branch Consolidation and Sales Plan). In addition, the Bancorp announced on September 13, 2016 that it had identified an additional 44 branch locations and 5 parcels of undeveloped land that it planned to consolidate or sell.

On January 29, 2016, the Bancorp closed the previously announced sale in the St. Louis MSA to Great Southern Bank and recorded a gain on the sale of $8 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income. Additionally, on April 22, 2016, the Bancorp closed the previously announced sale in the Pittsburgh MSA to First National Bank of Pennsylvania and recorded a gain on the sale of $11 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income. Both transactions were part of the Branch Consolidation and Sales Plan.

As of September 30, 2016, the Bancorp had 72 branch locations and 37 parcels of undeveloped land that had been acquired for future branch expansion that it intended to consolidate or sell. These branch locations and parcels of undeveloped land, which include unsold properties from the Branch Consolidation and Sales Plan as well as properties included in the September 13, 2016 announcement, represent $45 million, $17 million and $2 million of land and improvements, buildings and equipment, respectively, included in bank premises and equipment in the Condensed Consolidated Balance Sheets as of September 30, 2016, of which $34 million, $10 million and $1 million, respectively, were classified as held for sale.

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 $28 million and $31 million for the three and nine months ended September 30, 2016, respectively, and $2 million and $104 million for the three and nine months ended September 30, 2015, respectively. The recognized impairment losses were recorded in other noninterest income in the Condensed Consolidated Statements of Income.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

On September 29, 2016, the Bancorp closed on the sale of an office complex. The sale also included all of the Bancorp s rights, title and interest as a landlord under existing leases in the complex. Under the terms of the transaction, the Bancorp received proceeds of approximately $31 million and entered into a lease agreement whereby the Bancorp leased-back approximately 25% of the office complex. In conjunction with the transaction, which qualified as a sale-leaseback under U.S. GAAP, the Bancorp retired assets with a net book value of approximately $10 million, recognized a deferred gain of $10 million, which will be amortized as a reduction of rent expense over the 15 year lease term, and recorded a gain on the transaction of $11 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income.

8. Goodwill

Business combinations entered into by the Bancorp typically include the acquisition of goodwill. Acquisition activity includes acquisitions in the respective period in addition to purchase accounting adjustments related to previous acquisitions. During the fourth quarter of 2008, the Bancorp determined that the Commercial Banking and Consumer Lending reporting units goodwill carrying amounts exceeded their associated implied fair values by $750 million and $215 million, respectively. The resulting $965 million goodwill impairment charge was recorded in the fourth quarter of 2008 and represents the total amount of accumulated impairment losses as of September 30, 2016.

Changes in the net carrying amount of goodwill, by reporting unit, for the nine months ended September 30, 2016 and 2015 were as follows:

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	Total
Net carrying value as of December 31, 2015	$ 613	1,655	-	148	2,416
Acquisition activity	-	-	-	-	-
Net carrying value as of September 30, 2016	**$ 613**	**1,655**	**-**	**148**	**2,416**
Net carrying value as of December 31, 2014	$ 613	1,655	-	148	2,416
Acquisition activity	-	-	-	-	-
Net carrying value as of September 30, 2015	$ 613	1,655	-	148	2,416

The Bancorp completed its annual goodwill impairment test as of September 30, 2016 by performing a qualitative assessment of goodwill at the reporting unit level to determine whether any indicators of impairment existed. In performing this qualitative assessment, the Bancorp evaluated events and circumstances since the last impairment analysis, macroeconomic conditions, banking industry and market conditions and key financial metrics of the Bancorp as well as reporting unit and overall Bancorp financial performance. After assessing the totality of the events and

circumstances, the Bancorp determined that it was not more likely than not that the fair values of the Commercial Banking, Branch Banking and Wealth and Asset Management reporting units were less than their respective carrying amounts and, therefore, the first and second steps of the quantitative goodwill impairment test were deemed unnecessary.

9. Intangible Assets

Intangible assets consist of core deposit intangibles, customer lists, non-compete agreements and cardholder relationships. Intangible assets are amortized on either a straight-line or an accelerated basis over their estimated useful lives. Intangible assets have an estimated remaining weighted-average life at September 30, 2016 of 4.2 years.

The details of the Bancorp s intangible assets are shown in the following table:

($ in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
As of September 30, 2016			
Core deposit intangibles	**$ 34**	**(26)**	**8**
Other	**15**	**(13)**	**2**
Total intangible assets	**$ 49**	**(39)**	**10**
As of December 31, 2015			
Core deposit intangibles	$ 34	(26)	8
Other	33	(29)	4
Total intangible assets	$ 67	(55)	12

As of September 30, 2016, all of the Bancorp s intangible assets were being amortized. Amortization expense recognized on intangible assets was immaterial and $1 million for the three months ended September 30, 2016 and 2015, respectively, and $1 million and $2 million for the nine months ended September 30, 2016 and 2015, respectively. The Bancorp s projections of amortization expense shown below are based on existing asset balances as of September 30, 2016. Future amortization expense may vary from these projections.

Estimated amortization expense for the remainder of 2016 through 2020 is as follows:

($ in millions)	Total
Remainder of 2016	$ -
2017	2
2018	1
2019	1
2020	1

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

10. Variable Interest Entities

The Bancorp, in the normal course of business, engages in a variety of activities that involve VIEs, which are legal entities that lack sufficient equity to finance their activities without additional subordinated financial support or the equity investors of the entities as a group lack any of the characteristics of a controlling interest. The Bancorp evaluates its interest in certain entities to determine if these entities meet the definition of a VIE and whether the Bancorp is the primary beneficiary and should consolidate the entity based on the variable interests it held both at inception and when there is a change in circumstances that requires a reconsideration. If the Bancorp is determined to be the primary beneficiary of a VIE, it must account for the VIE as a consolidated subsidiary. If the Bancorp is determined not to be the primary beneficiary of a VIE but holds a variable interest in the entity, such variable interests are accounted for under the equity method of accounting or other accounting standards as appropriate.

Consolidated VIEs

The following tables provide a summary of the classifications of consolidated VIE assets, liabilities and noncontrolling interests included in the Condensed Consolidated Balance Sheets as of:

September 30, 2016 ($ in millions)		Automobile Loan Securitizations	CDC Investments	Total
Assets:				
Cash and due from banks	**$**	**111**	**1**	**112**
Commercial mortgage loans		**-**	**47**	**47**
Automobile loans		**1,513**	**-**	**1,513**
ALLL		**(8)**	**(20)**	**(28)**
Other assets		**11**	**-**	**11**
Total assets	**$**	**1,627**	**28**	**1,655**
Liabilities:				
Other liabilities	**$**	**3**	**-**	**3**
Long-term debt		**1,422**	**-**	**1,422**
Total liabilities	**$**	**1,425**	**-**	**1,425**
Noncontrolling interests			**28**	
	$	**-**		**28**

December 31, 2015 ($ in millions)	Automobile Loan Securitizations	CDC Investments	Total
Assets:			

Cash and due from banks	$	151	1	152
Commercial mortgage loans		-	47	47
Automobile loans		2,490	-	2,490
ALLL		(11)	(17)	(28)
Other assets[(a)]		14	-	14
Total assets[(a)]	$	2,644	31	2,675
Liabilities				
Other liabilities	$	3	-	3
Long-term debt[(a)]		2,487	-	2,487
Total liabilities[(a)]	$	2,490	-	2,490
Noncontrolling interests	$	-	31	31

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $6 of debt issuance costs from other assets to long-term debt. For further information refer to Note 3.

Automobile loan securitizations

In securitization transactions that occurred during the years ended December 31, 2015 and 2014, the Bancorp transferred an aggregate amount of $750 million and $3.8 billion, respectively, in consumer automobile loans to bankruptcy remote trusts which were deemed to be VIEs. The primary purposes of the VIEs were to issue asset-backed securities with varying levels of credit subordination and payment priority, as well as residual interests, and to provide the Bancorp with access to liquidity for its originated loans. The Bancorp retained residual interests in the VIEs and, therefore, has an obligation to absorb losses and a right to receive benefits from the VIEs that could potentially be significant to the VIEs. In addition, the Bancorp retained servicing rights for the underlying loans and, therefore, holds the power to direct the activities of the VIEs that most significantly impact the economic performance of the VIEs. As a result, the Bancorp concluded that it is the primary beneficiary of the VIEs and, therefore, has consolidated these VIEs. The assets of the VIEs are restricted to the settlement of the asset-backed securities and other obligations of the VIEs. Third-party holders of the notes do not have recourse to the general assets of the Bancorp.

The economic performance of the VIEs is most significantly impacted by the performance of the underlying loans. The principal risks to which the VIEs are exposed include credit risk and prepayment risk. The credit and prepayment risks are managed through credit enhancements in the form of reserve accounts, overcollateralization, excess interest on the loans and the subordination of certain classes of asset-backed securities to other classes.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

CDC investments

CDC, a wholly-owned indirect subsidiary of the Bancorp, was created to invest in projects to create affordable housing, revitalize business and residential areas and preserve historic landmarks. CDC generally co-invests with other unrelated companies and/or individuals and typically makes investments in a separate legal entity that owns the property under development. The entities are usually formed as limited partnerships and LLCs and CDC typically invests as a limited partner/investor member in the form of equity contributions. The economic performance of the VIEs is driven by the performance of their underlying investment projects as well as the VIEs ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. The Bancorp s subsidiaries serve as the managing member of certain LLCs invested in business revitalization projects and have the right to make decisions that most significantly impact the economic performance of the LLCs. Additionally, the investor members do not own substantive kick-out rights or substantive participating rights over the managing member. The Bancorp has provided an indemnification guarantee to the investor member of these LLCs related to the qualification of tax credits generated by the investor members investment. Accordingly, the Bancorp concluded that it is the primary beneficiary and, therefore, has consolidated these VIEs. As a result, the investor members interests in these VIEs are presented as noncontrolling interests in the Condensed Consolidated Financial Statements. This presentation includes reporting separately the equity attributable to the noncontrolling interests in the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Changes in Equity and reporting separately the comprehensive income attributable to the noncontrolling interests in the Condensed Consolidated Statements of Comprehensive Income and the net income attributable to the noncontrolling interests in the Condensed Consolidated Statements of Income. The Bancorp s maximum exposure related to these indemnifications at September 30, 2016 and December 31, 2015 was $30 million and $27 million, respectively, which is based on an amount required to meet the investor member s defined target rate of return.

Non-consolidated VIEs

The following tables provide a summary of assets and liabilities carried on the Condensed Consolidated Balance Sheets related to non-consolidated VIEs for which the Bancorp holds an interest, but is not the primary beneficiary of the VIE, as well as the Bancorp s maximum exposure to losses associated with its interests in the entities as of:

September 30, 2016 ($ in millions)		Total Assets	Total Liabilities	Maximum Exposure
CDC investments	**$**	**1,409**	**337**	**1,409**
Private equity investments		**186**	**-**	**247**
Loans provided to VIEs		**1,916**		
			-	**2,793**

December 31, 2015 ($ in millions)		Total Assets	Total Liabilities	Maximum Exposure
CDC investments	$	1,455	367	1,455
Private equity investments		211	-	271
Loans provided to VIEs		1,630	-	2,599

CDC investments

As noted previously, CDC typically invests in VIEs as a limited partner or investor member in the form of equity contributions and has no substantive kick-out or substantive participating rights over the managing member. The Bancorp has determined that it is not the primary beneficiary of these VIEs because it lacks the power to direct the activities that most significantly impact the economic performance of the underlying project or the VIEs ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. This power is held by the managing members who exercise full and exclusive control of the operations of the VIEs. Accordingly, the Bancorp accounts for these investments under the equity method of accounting.

The Bancorp s funding requirements are limited to its invested capital and any additional unfunded commitments for future equity contributions. The Bancorp s maximum exposure to loss as a result of its involvement with the VIEs is limited to the carrying amounts of the investments, including the unfunded commitments. The carrying amounts of these investments, which are included in other assets in the Condensed Consolidated Balance Sheets, and the liabilities related to the unfunded commitments, which are included in other liabilities in the Condensed Consolidated Balance Sheets, are included in the previous tables for all periods presented. The Bancorp has no other liquidity arrangements or obligations to purchase assets of the VIEs that would expose the Bancorp to a loss. In certain arrangements, the general partner/managing member of the VIE has guaranteed a level of projected tax credits to be received by the limited partners/investor members, thereby minimizing a portion of the Bancorp s risk.

At both September 30, 2016 and December 31, 2015, the Bancorp s CDC investments included $1.3 billion of investments in affordable housing tax credits recognized in other assets in the Condensed Consolidated Balance Sheets. The unfunded commitments related to these investments were $329 million and $356 million at September 30, 2016 and December 31, 2015, respectively. The unfunded commitments as of September 30, 2016 are expected to be funded from 2016 to 2033.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The Bancorp has accounted for all of its investments in qualified affordable housing tax credits using the equity method of accounting. The following table summarizes the impact to the Condensed Consolidated Statements of Income relating to investments in qualified affordable housing investments:

		For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	Condensed Consolidated Statements of Income Caption	**2016**	2015	**2016**	2015
Pre-tax investment and impairment losses[(a)]	Other noninterest expense	**$ 37**	33	**110**	100
Tax credits and other benefits	Applicable income tax expense	**(54)**	(51)	**(165)**	(156)

*(a) The Bancorp did not recognize impairment losses resulting from the forfeiture or ineligibility of tax credits or other circumstances during both the three and nine months ended **September 30, 2016** and 2015.*

Private equity investments

The Bancorp, through Fifth Third Capital Holdings, a wholly-owned indirect subsidiary of the Bancorp, invests as a limited partner in private equity investments which provide the Bancorp an opportunity to obtain higher rates of return on invested capital, while also creating cross-selling opportunities for the Bancorp s commercial products. Each of the limited partnerships has an unrelated third-party general partner responsible for appointing the fund manager. The Bancorp has not been appointed fund manager for any of these private equity investments. The funds finance primarily all of their activities from the partners capital contributions and investment returns. The Bancorp has determined that it is not the primary beneficiary of the funds because it does not have the obligation to absorb the funds expected losses or the right to receive the funds expected residual returns that could potentially be significant to the funds and lacks the power to direct the activities that most significantly impact the economic performance of the funds. The Bancorp, as a limited partner, does not have substantive participating or substantive kick-out rights over the general partner. Therefore, the Bancorp accounts for its investments in these limited partnerships under the equity method of accounting.

The Bancorp is exposed to losses arising from the negative performance of the underlying investments in the private equity investments. As a limited partner, the Bancorp s maximum exposure to loss is limited to the carrying amounts of the investments plus unfunded commitments. The carrying amounts of these investments, which are included in other assets in the Condensed Consolidated Balance Sheets, are included in the previous tables. Also, at September 30, 2016 and December 31, 2015, the unfunded commitment amounts to the funds were $61 million and $60 million, respectively. As part of previous commitments, the Bancorp made capital contributions to private equity investments of an immaterial amount and $6 million during the three months ended September 30, 2016 and 2015, respectively, and $8 million and $28 million, during the nine months ended September 30, 2016 and 2015, respectively. The Bancorp recognized $9 million of OTTI primarily associated with certain nonconforming investments affected by the

Volcker Rule during both the three and nine months ended September 30, 2016 and no OTTI was recognized during both the three and nine months ended September 30, 2015. Refer to Note 22 for further information.

Loans provided to VIEs

The Bancorp has provided funding to certain unconsolidated VIEs sponsored by third parties. These VIEs are generally established to finance certain consumer and small business loans originated by third parties. The entities are primarily funded through the issuance of a loan from the Bancorp or a syndication through which the Bancorp is involved. The sponsor/administrator of the entities is responsible for servicing the underlying assets in the VIEs. Because the sponsor/administrator, not the Bancorp, holds the servicing responsibilities, which include the establishment and employment of default mitigation policies and procedures, the Bancorp does not hold the power to direct the activities that most significantly impact the economic performance of the entity and, therefore, is not the primary beneficiary.

The principal risk to which these entities are exposed is credit risk related to the underlying assets. The Bancorp s maximum exposure to loss is equal to the carrying amounts of the loans and unfunded commitments to the VIEs. The Bancorp s outstanding loans to these VIEs are included in commercial loans in Note 5. As of September 30, 2016 and December 31, 2015, the Bancorp s unfunded commitments to these entities were $877 million and $969 million, respectively. The loans and unfunded commitments to these VIEs are included in the Bancorp s overall analysis of the ALLL and reserve for unfunded commitments, respectively. The Bancorp does not provide any implicit or explicit liquidity guarantees or principal value guarantees to these VIEs.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

11. Sales of Receivables and Servicing Rights

Residential Mortgage TDR Loan Sale

In March of 2015, the Bancorp recognized a $37 million gain, included in other noninterest income in the Condensed Consolidated Statements of Income, on the sale of certain HFS residential mortgage loans with a carrying value of $568 million that were previously modified in a TDR. As part of this sale, the Bancorp provided certain standard representations and warranties which are expired. Additionally, the Bancorp did not obtain servicing responsibilities on the sales of these loans and the investors have no credit recourse to the Bancorp s other assets for failure of debtors to pay when due.

Residential Mortgage Loan Sales

The Bancorp sold fixed and adjustable-rate residential mortgage loans during the three and nine months ended September 30, 2016 and 2015. In those sales, the Bancorp obtained servicing responsibilities and provided certain standard representations and warranties, however the investors have no recourse to the Bancorp s other assets for failure of debtors to pay when due. The Bancorp receives annual servicing fees based on a percentage of the outstanding balance. The Bancorp identifies classes of servicing assets based on financial asset type and interest rates.

Information related to residential mortgage loan sales and the Bancorp s mortgage banking activity, which is included in mortgage banking net revenue in the Condensed Consolidated Statements of Income, is as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Residential mortgage loan sales[(a)]				3,798 [(b)]
	$ 1,846	1,421	**4,591**	
Origination fees and gains on loan sales	**61**	46	**156**	134
Gross mortgage servicing fees	**49**	54	**151**	169

(a) Represents the unpaid principal balance at the time of the sale.

(b) Excludes $568 of HFS residential mortgage loans previously modified in a TDR that were sold during the first quarter of 2015.

Servicing Rights

The following table presents changes in the servicing rights related to residential mortgage and automobile loans for the nine months ended September 30:

($ in millions)		2016	2015
Carrying amount before valuation allowance:			
Balance, beginning of period	$	**1,204**	1,392
Servicing rights that result from the transfer of residential mortgage loans		**55**	48
Amortization		**(96)**	(111)
Balance, end of period	$	**1,163**	1,329
Valuation allowance for servicing rights:			
Balance, beginning of period	$	**(419)**	(534)
Provision for MSR impairment		**(125)**	(38)
Balance, end of period		**(544)**	(572)
Carrying amount after valuation allowance	$	**619**	757

Amortization expense recognized on servicing rights for the three months ended September 30, 2016 and 2015 was $35 million and $37 million, respectively. For the nine months ended September 30, 2016 and 2015, amortization expense was $96 million and $111 million, respectively. The Bancorp s projections of amortization expense shown below are based on existing asset balances and static key economic assumptions as of September 30, 2016. Future amortization expense may vary from these projections.

Estimated amortization expense for the remainder of 2016 through 2020 is as follows:

($ in millions)	Total
Remainder of 2016	$ 35
2017	131
2018	116
2019	102
2020	90

Temporary impairment or impairment recovery, affected through a change in the MSR valuation allowance, is captured as a component of mortgage banking net revenue in the Condensed Consolidated Statements of Income. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in the value of the MSR portfolio. This strategy may include the purchase of free-standing derivatives and various available-for-sale securities. The interest income, mark-to-market adjustments and gain or loss from sale activities associated with these portfolios are expected to economically hedge a portion of the change in value of the MSR portfolio caused by fluctuating OAS spreads, earnings rates and prepayment speeds. The fair value of the servicing asset is based on the present value of expected future cash flows.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table displays the beginning and ending fair value of the servicing rights for the nine months ended September 30:

($ in millions)	**2016**	2015
Fixed-rate residential mortgage loans:		
Balance, beginning of period	**$ 757**	823
Balance, end of period	**597**	731
Adjustable-rate residential mortgage loans:		
Balance, beginning of period	**27**	33
Balance, end of period	**22**	25
Fixed-rate automobile loans:		
Balance, beginning of period	**1**	2
Balance, end of period	**-**	1

The following table presents activity related to valuations of the MSR portfolio and the impact of the non-qualifying hedging strategy, which is included in mortgage banking net revenue in the Condensed Consolidated Statements of Income:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio	**$ (16)**	85	**133**	119
(Provision for) recovery of MSR impairment	**7**	(77)	**(125)**	(38)

As of September 30, 2016 and 2015, the key economic assumptions used in measuring the interests in residential mortgage loans that continued to be held by the Bancorp at the date of sale or securitization resulting from transactions completed during the three months ended were as follows:

	September 30, 2016				September 30, 2015			
	Weighted-Average Life (in years)	Prepayment Speed (annual)	OAS Spread (bps)	Weighted-Average Default Rate	Weighted-Average Life (in years)	Prepayment Speed (annual)	OAS Spread (bps)	Weighted-Average Default Rate

Residential mortgage loans:										
Servicing rights	Fixed	**6.6**	**11.7 %**	**564**	**N/A**	7.4	10.9 %	674	N/A
Servicing rights	Adjustable	**2.8**	**30.0**	**681**	**N/A**	2.8	32.9	671	N/A

Based on historical credit experience, expected credit losses for residential mortgage loan servicing rights have been deemed immaterial, as the Bancorp sold the majority of the underlying loans without recourse. At September 30, 2016 and December 31, 2015, the Bancorp serviced $54.6 billion and $59.0 billion, respectively, of residential mortgage loans for other investors. The value of MSRs that continue to be held by the Bancorp is subject to credit, prepayment and interest rate risks on the sold financial assets.

At September 30, 2016, the sensitivity of the current fair value of residual cash flows to immediate 10%, 20% and 50% adverse changes in prepayment speed assumptions and immediate 10% and 20% adverse changes in other assumptions are as follows:

				Prepayment Speed Assumption				Residual Servicing Cash Flows		
					Impact of Adverse Change on Fair Value			OAS	Impact of Adverse Change on Fair Value	
($ in millions)[(a)]	Rate	Fair Value	Weighted-Average Life (in years)	Rate	10%	20%	50%	Spread (bps)	10%	20%
Residential mortgage loans:										
Servicing rights	Fixed	$ 597	4.9	14.9 %	$ (31)	(59)	(128)	615	$ (13)	(26)
Servicing rights	Adjustable	22	3.1	27.1	(1)	(3)	(6)	724	-	(1)

(a) The impact of the weighted-average default rate on the current fair value of residual cash flows for all scenarios is immaterial.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on these variations in the assumptions typically cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The Bancorp believes variations of these levels are reasonably possible; however, there is the potential that adverse changes in key assumptions could be even greater. Also, in the previous table, the effect of a variation in a particular assumption on the fair value of the interests that continue to be held by the Bancorp is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might magnify or counteract these sensitivities.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

12. Derivative Financial Instruments

The Bancorp maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce certain risks related to interest rate, prepayment and foreign currency volatility. Additionally, the Bancorp holds derivative instruments for the benefit of its commercial customers and for other business purposes. The Bancorp does not enter into unhedged speculative derivative positions.

The Bancorp s interest rate risk management strategy involves modifying the repricing characteristics of certain financial instruments so that changes in interest rates do not adversely affect the Bancorp s net interest margin and cash flows. 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, forward starting interest rate swaps, options and swaptions. Interest rate swap contracts are exchanges of interest payments, such as fixed-rate payments for floating-rate payments, based on a stated notional amount and maturity date. Interest rate floors protect against declining rates, while interest rate caps protect against rising interest rates. Forward contracts are contracts in which the buyer agrees to purchase, and the seller agrees to make delivery of, a specific financial instrument at a predetermined price or yield. Options provide the purchaser with the right, but not the obligation, to purchase or sell a contracted item during a specified period at an agreed upon price. Swaptions are financial instruments granting the owner the right, but not the obligation, to enter into or cancel a swap.

Prepayment volatility arises mostly from changes in fair value of the largely fixed-rate MSR portfolio, mortgage loans and mortgage-backed securities. The Bancorp may enter into various free-standing derivatives (principal-only swaps, interest rate swaptions, interest rate floors, mortgage options, TBAs and interest rate swaps) to economically hedge prepayment volatility. Principal-only swaps are total return swaps based on changes in the value of the underlying mortgage principal-only trust. TBAs are a forward purchase agreement for a mortgage-backed securities trade whereby the terms of the security are undefined at the time the trade is made.

Foreign currency volatility occurs as the Bancorp enters into certain loans denominated in foreign currencies. Derivative instruments that the Bancorp may use to economically hedge these foreign denominated loans include foreign exchange swaps and forward contracts.

The Bancorp also enters into derivative contracts (including foreign exchange contracts, commodity contracts and interest rate contracts) for the benefit of commercial customers and other business purposes. The Bancorp economically hedges significant exposures related to these free-standing derivatives by entering into offsetting third-party contracts with approved, reputable and independent counterparties with substantially matching terms and currencies. Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Bancorp s exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. Credit risk is minimized through credit approvals, limits, counterparty collateral and monitoring procedures.

The Bancorp s derivative assets include certain contractual features in which the Bancorp requires the counterparties to provide collateral in the form of cash and securities to offset changes in the fair value of the derivatives, including

changes in the fair value due to credit risk of the counterparty. As of September 30, 2016 and December 31, 2015, the balance of collateral held by the Bancorp for derivative assets was $801 million and $821 million, respectively. The credit component negatively impacting the fair value of derivative assets associated with customer accommodation contracts as of September 30, 2016 and December 31, 2015 was $8 million and $9 million, respectively.

In measuring the fair value of derivative liabilities, the Bancorp considers its own credit risk, taking into consideration collateral maintenance requirements of certain derivative counterparties and the duration of instruments with counterparties that do not require collateral maintenance. When necessary, the Bancorp posts collateral primarily in the form of cash and securities to offset changes in fair value of the derivatives, including changes in fair value due to the Bancorp s credit risk. As of September 30, 2016 and December 31, 2015, the balance of collateral posted by the Bancorp for derivative liabilities was $555 million and $504 million, respectively. Certain of the Bancorp s derivative liabilities contain credit-risk related contingent features that could result in the requirement to post additional collateral upon the occurrence of specified events. As of September 30, 2016 and December 31, 2015, the fair value of the additional collateral that could be required to be posted as a result of the credit-risk related contingent features being triggered was immaterial to the Condensed Consolidated Financial Statements. The posting of collateral has been determined to remove the need for further consideration of credit risk. As a result, the Bancorp determined that the impact of the Bancorp s credit risk to the valuation of its derivative liabilities was immaterial to the Condensed Consolidated Financial Statements.

The Bancorp holds certain derivative instruments that qualify for hedge accounting treatment and are designated as either fair value hedges or cash flow hedges. Derivative instruments that do not qualify for hedge accounting treatment, or for which hedge accounting is not established, are held as free-standing derivatives. All customer accommodation derivatives are held as free-standing derivatives.

The fair value of derivative instruments is presented on a gross basis, even when the derivative instruments are subject to master netting arrangements. Derivative instruments with a positive fair value are reported in other assets in the Condensed Consolidated Balance Sheets while derivative instruments with a negative fair value are reported in other liabilities in the Condensed Consolidated Balance Sheets. Cash collateral payables and receivables associated with the derivative instruments are not added to or netted against the fair value amounts.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables reflect the notional amounts and fair values for all derivative instruments included in the Condensed Consolidated Balance Sheets as of:

September 30, 2016 ($ in millions)	Notional Amount	Fair Value Derivative Assets	Fair Value Derivative Liabilities
Derivatives Designated as Qualifying Hedging Instruments:			
Fair value hedges:			
Interest rate swaps related to long-term debt	**$ 3,455**	**473**	**-**
Total fair value hedges		**473**	**-**
Cash flow hedges:			
Interest rate swaps related to C&I loans	**4,475**	**83**	**-**
Total cash flow hedges		**83**	**-**
Total derivatives designated as qualifying hedging instruments		**556**	-
Derivatives Not Designated as Qualifying Hedging Instruments:			
Free-standing derivatives - risk management and other business purposes:			
Interest rate contracts related to MSRs	**10,397**	**332**	**50**
Forward contracts related to residential mortgage loans held for sale	**2,033**	**-**	**8**
Stock warrant associated with Vantiv Holding, LLC	**438**	**325**	**-**
Swap associated with the sale of Visa, Inc. Class B shares	**1,378**	**-**	**103**
Foreign exchange contracts	**168**	**-**	**-**
Total free-standing derivatives - risk management and other business purposes		**657**	**161**
Free-standing derivatives - customer accommodation:			
Interest rate contracts for customers	**32,218**	**339**	**346**
Interest rate lock commitments	**1,215**	**33**	**-**
Commodity contracts	**1,800**	**111**	**99**
Foreign exchange contracts	**12,545**	**194**	**186**
Total free-standing derivatives - customer accommodation		**677**	**631**
Total derivatives not designated as qualifying hedging instruments		**1,334**	**792**
Total		**$ 1,890**	**792**

December 31, 2015 ($ in millions)			Fair Value

		Notional Amount		Derivative Assets	Derivative Liabilities
Derivatives Designated as Qualifying Hedging Instruments:					
Fair value hedges:					
Interest rate swaps related to long-term debt	$	2,705		372	2
Total fair value hedges				372	2
Cash flow hedges:					
Interest rate swaps related to C&I loans		5,475		39	-
Total cash flow hedges				39	-
Total derivatives designated as qualifying hedging instruments				411	2
Derivatives Not Designated as Qualifying Hedging Instruments:					
Free-standing derivatives - risk management and other business purposes:					
Interest rate contracts related to MSRs		11,657		239	9
Forward contracts related to residential mortgage loans held for sale		1,330		3	1
Stock warrant associated with Vantiv Holding, LLC		369		262	-
Swap associated with the sale of Visa, Inc. Class B shares		1,292		-	61
Total free-standing derivatives - risk management and other business purposes				504	71
Free-standing derivatives - customer accommodation:					
Interest rate contracts for customers		29,889		242	249
Interest rate lock commitments		721		15	-
Commodity contracts		2,464		294	276
Foreign exchange contracts		16,243		386	340
Total free-standing derivatives - customer accommodation				937	865
Total derivatives not designated as qualifying hedging instruments				1,441	936
Total			$	1,852	938

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Fair Value Hedges

The Bancorp may enter into interest rate swaps to convert its fixed-rate funding to floating-rate. Decisions to convert fixed-rate funding to floating are made primarily through consideration of the asset/liability mix of the Bancorp, the desired asset/liability sensitivity and interest rate levels. For all interest rate swaps as of September 30, 2016, an assessment of hedge effectiveness was performed using regression analysis and such swaps were accounted for using the long-haul method. The long-haul method requires a quarterly assessment of hedge effectiveness and measurement of ineffectiveness. For interest rate swaps accounted for as a fair value hedge using the long-haul method, ineffectiveness is the difference between the changes in the fair value of the interest rate swap and changes in fair value of the related hedged item attributable to the risk being hedged. The ineffectiveness on interest rate swaps hedging fixed-rate funding is reported within interest expense in the Condensed Consolidated Statements of Income.

The following table reflects the change in fair value of interest rate contracts, designated as fair value hedges, as well as the change in fair value of the related hedged items attributable to the risk being hedged, included in the Condensed Consolidated Statements of Income:

	Condensed Consolidated Statements of	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	Income Caption	**2016**	2015	**2016**	2015
Change in fair value of interest rate swaps hedging long-term debt	Interest on long-term debt	**$ (19)**	64	**103**	15
Change in fair value of hedged long-term debt attributable to the risk being hedged	Interest on long-term debt	**17**	(65)	**(109)**	(18)

Cash Flow Hedges

The Bancorp may enter into interest rate swaps to convert floating-rate assets and liabilities to fixed rates or to hedge certain forecasted transactions. The assets or liabilities may be grouped in circumstances where they share the same risk exposure that the Bancorp desires to hedge. The Bancorp may also enter into interest rate caps and floors to limit cash flow variability of floating-rate assets and liabilities. As of September 30, 2016, all hedges designated as cash flow hedges were assessed for effectiveness using regression analysis. Ineffectiveness is generally measured as the amount by which the cumulative change in the fair value of the hedging instrument exceeds the present value of the cumulative change in the hedged item s expected cash flows attributable to the risk being hedged. Ineffectiveness is reported within other noninterest income in the Condensed Consolidated Statements of Income. The effective portion of the cumulative gains or losses on cash flow hedges are reported within AOCI and are reclassified from AOCI to current period earnings when the forecasted transaction affects earnings. As of September 30, 2016, the maximum length of time over which the Bancorp is hedging its exposure to the variability in future cash flows is 39 months.

Reclassified gains and losses on interest rate contracts related to commercial and industrial loans are recorded within interest income in the Condensed Consolidated Statements of Income. As of September 30, 2016 and December 31, 2015, $48 million and $22 million, respectively, of net deferred gains, net of tax, on cash flow hedges were recorded in AOCI in the Condensed Consolidated Balance Sheets. As of September 30, 2016, approximately $24 million in net deferred gains, net of tax, recorded in AOCI are expected to be reclassified into earnings during the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to September 30, 2016.

During both the three and nine months ended September 30, 2016 and 2015, there were no gains or losses reclassified from AOCI into earnings associated with the discontinuance of cash flow hedges because it was probable that the original forecasted transaction would no longer occur by the end of the originally specified time period or within the additional period of time as defined by U.S. GAAP.

The following table presents the pretax net gains (losses) recorded in the Condensed Consolidated Statements of Income and in the Condensed Consolidated Statements of Comprehensive Income relating to derivative instruments designated as cash flow hedges:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Amount of pretax net gains (losses) recognized in OCI	**$ (23)**	65	**77**	109
Amount of pretax net gains reclassified from OCI into net income	**11**	20	**37**	55

Free-Standing Derivative Instruments Risk Management and Other Business Purposes

As part of its overall risk management strategy relative to its mortgage banking activity, the Bancorp may enter into various free-standing derivatives (principal-only swaps, interest rate swaptions, interest rate floors, mortgage options, TBAs and interest rate swaps) to economically hedge changes in fair value of its largely fixed-rate MSR portfolio. Principal-only swaps hedge the mortgage-LIBOR spread because these swaps appreciate in value as a result of tightening spreads. Principal-only swaps also provide prepayment protection by increasing in value when prepayment speeds increase, as opposed to MSRs that lose value in a faster prepayment environment. Receive fixed/pay floating interest rate swaps and swaptions increase in value when interest rates do not increase as quickly as expected.

The Bancorp enters into forward contracts and mortgage options to economically hedge the change in fair value of certain residential mortgage loans held for sale due to changes in interest rates. IRLCs issued on residential mortgage loan commitments that will be held for sale are also considered free-standing derivative instruments and the interest rate exposure on these commitments is economically hedged primarily with forward contracts. Revaluation gains and losses from free-standing derivatives related to mortgage banking activity are recorded as a component of mortgage banking net revenue in the Condensed Consolidated Statements of Income.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

In conjunction with the initial sale of the Bancorp s 51% interest in Vantiv Holding, LLC, the Bancorp received a warrant which is accounted for as a free-standing derivative. Refer to Note 22 for further discussion of significant inputs and assumptions used in the valuation of the warrant.

In conjunction with the initial sale of Visa, Inc. Class B shares in 2009, the Bancorp entered into a total return swap in which the Bancorp will make or receive payments based on subsequent changes in the conversion rate of the Class B shares into Class A shares. This total return swap is accounted for as a free-standing derivative. Refer to Note 22 for further discussion of significant inputs and assumptions used in the valuation of this instrument.

The net gains (losses) recorded in the Condensed Consolidated Statements of Income relating to free-standing derivative instruments used for risk management and other business purposes are summarized in the following table:

($ in millions)	Condensed Consolidated Statements of Income Caption	For the three months ended September 30, **2016**	2015	For the nine months ended September 30, **2016**	2015
Interest rate contracts:					
Forward contracts related to residential mortgage loans held for sale	Mortgage banking net revenue	**$ 9**	(15)	**(10)**	(4)
Interest rate contracts related to MSR portfolio	Mortgage banking net revenue	**(16)**	85	**133**	119
Foreign exchange contracts:					
Foreign exchange contracts for risk management purposes	Other noninterest income	**2**	6	**(3)**	19
Equity contracts:					
Stock warrant associated with Vantiv Holding, LLC	Other noninterest income	**(2)**	130	**64**	215
Swap associated with sale of Visa, Inc. Class B shares	Other noninterest income	**(12)**	(8)	**(61)**	(27)

Free-Standing Derivative Instruments Customer Accommodation

The majority of the free-standing derivative instruments the Bancorp enters into are for the benefit of its commercial customers. These derivative contracts are not designated against specific assets or liabilities on the Condensed Consolidated Balance Sheets or to forecasted transactions; and therefore, do not qualify for hedge accounting. These instruments include foreign exchange derivative contracts entered into for the benefit of commercial customers involved in international trade to hedge their exposure to foreign currency fluctuations and commodity contracts to hedge such items as natural gas and various other derivative contracts. The Bancorp may economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into

offsetting contracts with approved, reputable and independent counterparties with substantially matching terms. The Bancorp hedges its interest rate exposure on commercial customer transactions by executing offsetting swap agreements with primary dealers. Revaluation gains and losses on interest rate, foreign exchange, commodity and other commercial customer derivative contracts are recorded as a component of corporate banking revenue in the Condensed Consolidated Statements of Income.

The Bancorp enters into risk participation agreements, under which the Bancorp assumes credit exposure relating to certain underlying interest rate derivative contracts. The Bancorp only enters into these risk participation agreements in instances in which the Bancorp has participated in the loan that the underlying interest rate derivative contract was designed to hedge. The Bancorp will make payments under these agreements if a customer defaults on its obligation to perform under the terms of the underlying interest rate derivative contract. As of September 30, 2016 and December 31, 2015, the total notional amount of the risk participation agreements was $2.5 billion and $1.7 billion, respectively, and the fair value was a liability of $4 million and $3 million at September 30, 2016 and December 31, 2015, respectively, which is included in interest rate contracts for customers. As of September 30, 2016, the risk participation agreements had a weighted-average remaining life of 2.9 years.

The Bancorp s maximum exposure in the risk participation agreements is contingent on the fair value of the underlying interest rate derivative contracts in an asset position at the time of default. The Bancorp monitors the credit risk associated with the underlying customers in the risk participation agreements through the same risk grading system currently utilized for establishing loss reserves in its loan and lease portfolio.

Risk ratings of the notional amount of risk participation agreements under this risk rating system are summarized in the following table as of:

($ in millions)		**September 30, 2016**	December 31, 2015
Pass	**$**	**2,463**	1,650
Special mention		**8**	7
Substandard		**2**	7
Total	**$**	**2,473**	1,664

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The net gains (losses) recorded in the Condensed Consolidated Statements of Income relating to free-standing derivative instruments used for customer accommodation are summarized in the following table:

($ in millions)	Condensed Consolidated Statements of Income Caption	For the three months ended September 30, **2016**	2015	For the nine months ended September 30, **2016**	2015
Interest rate contracts:					
Interest rate contracts for customers (contract revenue)	Corporate banking revenue	**$ 5**	7	**17**	18
Interest rate contracts for customers (credit losses)	Other noninterest expense	**-**	-	**-**	(1)
Interest rate contracts for customers (credit portion of fair value adjustment)	Other noninterest expense	**1**	(1)	**(2)**	(1)
Interest rate lock commitments	Mortgage banking net revenue	**42**	38	**126**	90
Commodity contracts:					
Commodity contracts for customers (contract revenue)	Corporate banking revenue	**1**	1	**4**	4
Commodity contracts for customers (credit losses)	Other noninterest expense	**-**	-	**(1)**	(2)
Commodity contracts for customers (credit portion of fair value adjustment)	Other noninterest expense	**-**	-	**1**	6
Foreign exchange contracts:					
Foreign exchange contracts for customers (contract revenue)	Corporate banking revenue	**13**	17	**44**	55
Foreign exchange contracts for customers (credit losses)	Other noninterest expense	**-**	-	**(2)**	-

Offsetting Derivative Financial Instruments

The Bancorp s derivative transactions are generally governed by ISDA Master Agreements and similar arrangements, which include provisions governing the setoff of assets and liabilities between the parties. When the Bancorp has more than one outstanding derivative transaction with a single counterparty, the setoff provisions contained within these agreements generally allow the non-defaulting party the right to reduce its liability to the defaulting party by amounts eligible for setoff, including the collateral received as well as eligible offsetting transactions with that counterparty, irrespective of the currency, place of payment, or booking office. The Bancorp s policy is to present its derivative assets and derivative liabilities in the Condensed Consolidated Balance Sheets on a gross basis, even when provisions allowing for setoff are in place.

Collateral amounts included in the tables below consist primarily of cash and highly-rated government-backed securities.

The following tables provide a summary of offsetting derivative financial instruments:

As of September 30, 2016 ($ in millions)	Gross Amount Recognized in the Condensed Consolidated Balance Sheets[a]	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
		Derivatives	Collateral[b]	Net Amount
Assets:				
Derivatives	**$ 1,532**	**(517)**	**(551)**	**464**
Total assets	**1,532**	**(517)**	**(551)**	**464**
Liabilities:				
Derivatives	**792**	**(517)**	**(173)**	**102**
Total liabilities	**$ 792**	**(517)**	**(173)**	**102**

(a) Amount does not include the stock warrant associated with Vantiv Holding, LLC and IRLCs because these instruments are not subject to master netting or similar arrangements.

(b) Amount of collateral received as an offset to asset positions or pledged as an offset to liability positions. Collateral values in excess of related derivative amounts recognized in the Condensed Consolidated Balance Sheets were excluded from this table.

As of December 31, 2015 ($ in millions)	Gross Amount Recognized in the Condensed Consolidated Balance Sheets[a]	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
		Derivatives	Collateral[b]	Net Amount
Assets:				
Derivatives	$ 1,575	(512)	(627)	436
Total assets	1,575	(512)	(627)	436
Liabilities:				
Derivatives	938	(512)	(173)	253
Total liabilities	$ 938	(512)	(173)	253

(a) Amount does not include the stock warrant associated with Vantiv Holding, LLC and IRLCs because these instruments are not subject to master netting or similar arrangements.

(b) Amount of collateral received as an offset to asset positions or pledged as an offset to liability positions. Collateral values in excess of related derivative amounts recognized in the Condensed Consolidated Balance Sheets were excluded from this table.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

13. Other Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. The following table presents a summary of the Bancorp s other short-term borrowings as of:

($ in millions)		**September 30, 2016**	December 31, 2015
FHLB advances	**$**	**1,950**	-
Securities sold under repurchase agreements		**832**	925
Derivative collateral		**712**	582
Total other short-term borrowings	**$**	**3,494**	1,507

The Bancorp s securities sold under repurchase agreements are accounted for as secured borrowings and are collateralized by securities included in available-for-sale and other securities in the Condensed Consolidated Balance Sheets. These securities are subject to changes in market value and, therefore, the Bancorp may increase or decrease the level of securities pledged as collateral based upon these movements in market value.

The following table summarizes the Bancorp s securities sold under repurchase agreements by the type of collateral securing the borrowing and remaining contractual maturity as of:

($ in millions)	**September 30, 2016**		December 31, 2015	
	Amount	Remaining Contractual Maturity	Amount	Remaining Contractual Maturity
Type of collateral:				
Agency residential mortgage-backed securities	**$ 685**	**Overnight**	646	Overnight
U.S. Treasury and federal agencies securities	**147**	**Overnight**	279	Overnight
Total securities sold under repurchase agreements	**$ 832**		925	

14. Long-Term Debt

On March 15, 2016, the Bank issued and sold $1.5 billion in aggregate principal amount of unsecured bank notes. The bank notes consisted of $750 million of 2.30% senior fixed-rate notes, with a maturity of three years, due on March 15, 2019; and $750 million of 3.85% subordinated fixed-rate notes, with a maturity of ten years, due on March 15, 2026. 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.

On June 14, 2016, the Bank issued and sold $1.3 billion of 2.25% unsecured senior fixed-rate notes, with a maturity of five years, due on June 14, 2021. 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.

On September 2, 2016, the Bank submitted a redemption notice to the Issuing and Paying Agent to redeem $1.0 billion of 1.15% senior fixed-rate notes and $750 million of senior floating-rate notes at three-month LIBOR plus 51 bps. Pursuant to the terms and conditions of the notes, the Bank redeemed the notes on October 19, 2016, which was 30 days prior to their scheduled maturity on November 18, 2016.

On September 27, 2016, the Bank issued and sold $1.0 billion in aggregate principal amount of unsecured senior bank notes, with a maturity of three years, due on September 27, 2019. The bank notes consisted of $750 million of 1.625% senior fixed-rate notes and $250 million of senior floating-rate notes at three-month LIBOR plus 59 bps. The Bancorp entered into interest rate swaps to convert the fixed-rate notes to a floating-rate, which resulted in an effective interest rate of three-month LIBOR plus 53 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.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

15. Capital Actions

Accelerated Share Repurchase Transactions

During the nine months ended September 30, 2016, 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 these repurchase agreements. The accelerated share repurchases were treated as two separate transactions, (i) the acquisition of treasury shares on the repurchase date and (ii) a forward contract indexed to the Bancorp s common stock.

The following table presents a summary of the Bancorp s accelerated share repurchase transactions that were entered into or settled during the nine months ended September 30, 2016:

Repurchase Date	Amount ($ in millions)	Shares Repurchased on Repurchase Date	Shares Received from Forward Contract Settlement	Total Shares Repurchased	Settlement Date
December 14, 2015	$ 215	9,248,482	1,782,477	11,030,959	January 14, 2016
March 4, 2016	240	12,623,762	1,868,379	14,492,141	April 11, 2016
August 5, 2016	240	10,979,548	1,099,205	12,078,753	November 7, 2016

Open Market Share Repurchase Transactions

Between June 17, 2016 and June 20, 2016, the Bancorp repurchased 1,436,100 shares, or approximately $26 million, of its outstanding common stock through open market repurchase transactions.

16. Commitments, Contingent Liabilities and Guarantees

The Bancorp, in the normal course of business, enters into financial instruments and various agreements to meet the financing needs of its customers. The Bancorp also enters into certain transactions and agreements to manage its interest rate and prepayment risks, provide funding, equipment and locations for its operations and invest in its communities. These instruments and agreements involve, to varying degrees, elements of credit risk, counterparty risk and market risk in excess of the amounts recognized in the Condensed Consolidated Balance Sheets. The creditworthiness of counterparties for all instruments and agreements is evaluated on a case-by-case basis in accordance with the Bancorp s credit policies. The Bancorp s significant commitments, contingent liabilities and guarantees in excess of the amounts recognized in the Condensed Consolidated Balance Sheets are discussed in further detail below:

Commitments

The Bancorp has certain commitments to make future payments under contracts. The following table reflects a summary of significant commitments as of:

($ in millions)		**September 30, 2016**	December 31, 2015
Commitments to extend credit	**$**	**67,566**	66,884
Letters of credit		**2,606**	3,055
Forward contracts related to residential mortgage loans held for sale		**2,033**	1,330
Noncancelable operating lease obligations		**592**	635
Capital commitments for private equity investments		**65**	60
Purchase obligations		**61**	60
Capital expenditures		**34**	30
Capital lease obligations		**21**	27

Commitments to extend credit

Commitments to extend credit are agreements to lend, typically having fixed expiration dates or other termination clauses that may require payment of a fee. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements. The Bancorp is exposed to credit risk in the event of nonperformance by the counterparty for the amount of the contract. Fixed-rate commitments are also subject to market risk resulting from fluctuations in interest rates and the Bancorp s exposure is limited to the replacement value of those commitments. As of September 30, 2016 and December 31, 2015, the Bancorp had a reserve for unfunded commitments, including letters of credit, totaling $162 million and $138 million, respectively, included in other liabilities in the Condensed Consolidated Balance Sheets. The Bancorp monitors the credit risk associated with commitments to extend credit using the same risk rating system utilized within its loan and lease portfolio.

Risk ratings under this risk rating system are summarized in the following table as of:

($ in millions)		**September 30, 2016**	December 31, 2015
Pass	**$**	**66,403**	65,645
Special mention		**457**	647
Substandard		**706**	592
Total commitments to extend credit	**$**	**67,566**	66,884

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Letters of credit

Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party and expire as summarized in the following table as of September 30, 2016:

($ in millions)		
Less than 1 year[(a)]	$	1,434
1 - 5 years[(a)]		1,148
Over 5 years		24
Total letters of credit	$	2,606

(a) Includes $15 and $3 issued on behalf of commercial customers to facilitate trade payments in U.S. dollars and foreign currencies which expire less than 1 year and between 1 - 5 years, respectively.

Standby letters of credit accounted for 99% of total letters of credit at both September 30, 2016 and December 31, 2015, and are considered guarantees in accordance with U.S. GAAP. Approximately 63% and 65% of the total standby letters of credit were collateralized as of September 30, 2016 and December 31, 2015, respectively. In the event of nonperformance by the customers, the Bancorp has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The reserve related to these standby letters of credit, which was included in the total reserve for unfunded commitments, was $3 million and immaterial, respectively, at September 30, 2016 and December 31, 2015. The Bancorp monitors the credit risk associated with letters of credit using the same risk rating system utilized within its loan and lease portfolio.

Risk ratings under this risk rating system are summarized in the following table as of:

($ in millions)		**September 30, 2016**	December 31, 2015
Pass	**$**	**2,171**	2,606
Special mention		**89**	130
Substandard		**286**	258
Doubtful		**60**	61
Total letters of credit	**$**	**2,606**	3,055

At September 30, 2016 and December 31, 2015, the Bancorp had outstanding letters of credit that were supporting certain securities issued as VRDNs. The Bancorp facilitates financing for its commercial customers, which consist of companies and municipalities, by marketing the VRDNs to investors. The VRDNs pay interest to holders at a rate of interest that fluctuates based upon market demand. The VRDNs generally have long-term maturity dates, but can be tendered by the holder for purchase at par value upon proper advance notice. When the VRDNs are tendered, a

remarketing agent generally finds another investor to purchase the VRDNs to keep the securities outstanding in the market. As of September 30, 2016 and December 31, 2015, total VRDNs in which the Bancorp was the remarketing agent or were supported by a Bancorp letter of credit were $973 million and $1.3 billion, respectively, of which FTS acted as the remarketing agent to issuers on $820 million and $1.1 billion, respectively. As remarketing agent, FTS is responsible for finding purchasers for VRDNs that are put by investors. The Bancorp issued letters of credit, as a credit enhancement, to $649 million and $921 million of the VRDNs remarketed by FTS, in addition to $154 million and $187 million in VRDNs remarketed by third parties at September 30, 2016 and December 31, 2015, respectively. These letters of credit are included in the total letters of credit balance provided in the previous table.

Forward contracts related to residential mortgage loans held for sale

The Bancorp enters into forward contracts to economically hedge the change in fair value of certain residential mortgage loans held for sale due to changes in interest rates. The outstanding notional amounts of these forward contracts are included in the summary of significant commitments table for all periods presented.

Noncancelable operating lease obligations and other commitments

The Bancorp s subsidiaries have entered into a number of noncancelable lease agreements. The minimum rental commitments under noncancelable lease agreements are shown in the summary of significant commitments table. The Bancorp has also entered into a limited number of agreements for work related to banking center construction and to purchase goods or services.

Contingent Liabilities

Private mortgage reinsurance

For certain mortgage loans originated by the Bancorp, borrowers may be required to obtain PMI provided by third-party insurers. In some instances, these insurers cede a portion of the PMI premiums to the Bancorp, and the Bancorp provides reinsurance coverage within a specified range of the total PMI coverage. The Bancorp s reinsurance coverage typically ranges from 5% to 10% of the total PMI coverage. In the second quarter of 2016, the Bancorp allowed one of its third-party insurers to terminate its reinsurance agreement with the Bancorp, resulting in the Bancorp releasing collateral to the insurer in the form of investment securities and other assets with a carrying value of $6 million, and the insurer assuming the Bancorp s obligations under the reinsurance agreement, resulting in a decrease to the Bancorp s reserve liability of $2 million and a decrease in the Bancorp s maximum exposure of $26 million. In addition, the Bancorp received a payment of $4 million related to the difference between the release of the assets and the reserve liability assumed. The Bancorp s remaining maximum exposure in the event of nonperformance by the underlying borrowers is equivalent to the Bancorp s total outstanding reinsurance coverage, which was $1 million at September 30, 2016 and $27 million at December 31, 2015. As of September 30, 2016 the Bancorp no longer maintained a reserve related to exposures within the reinsurance portfolio. As of December 31, 2015, the Bancorp maintained a reserve of $2 million related to exposures within the reinsurance portfolio which was included in other liabilities in the Condensed Consolidated Balance

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Sheet. The change in the reserve was due primarily to the decrease in outstanding exposure associated with the termination of the reinsurance agreement discussed previously. During 2009, the Bancorp suspended the practice of providing reinsurance of PMI for newly originated mortgage loans.

Legal claims

There are legal claims pending against the Bancorp and its subsidiaries that have arisen in the normal course of business. Refer to Note 17 for additional information regarding these proceedings.

Guarantees

The Bancorp has performance obligations upon the occurrence of certain events under financial guarantees provided in certain contractual arrangements as discussed in the following sections.

Residential mortgage loans sold with representation and warranty provisions

Conforming residential mortgage loans sold to unrelated third parties are generally sold with representation and warranty provisions. A contractual liability arises only in the event of a breach of these representations and warranties and, in general, only when a loss results from the breach. The Bancorp may be required to repurchase any previously sold loan or indemnify (make whole) the investor or insurer for which the representation or warranty of the Bancorp proves to be inaccurate, incomplete or misleading. For more information on how the Bancorp establishes the residential mortgage repurchase reserve, refer to Note 1 in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015.

During the fourth quarter of 2013, the Bancorp settled certain repurchase claims related to residential mortgage loans originated and sold to FHLMC prior to January 1, 2009 for $25 million, after paid claim credits and other adjustments. The settlement removes the Bancorp s responsibility to repurchase or indemnify FHLMC for representation and warranty violations on any loan sold prior to January 1, 2009 except in limited circumstances.

As of September 30, 2016 and December 31, 2015, the Bancorp maintained reserves related to loans sold with representation and warranty provisions totaling $18 million and $25 million, respectively, included in other liabilities in the Condensed Consolidated Balance Sheets.

The Bancorp uses the best information available when estimating its mortgage representation and warranty reserve; however, the estimation process is inherently uncertain and imprecise and, accordingly, losses in excess of the amounts reserved as of September 30, 2016, are reasonably possible. The Bancorp currently estimates that it is reasonably possible that it could incur losses related to mortgage representation and warranty provisions in an amount up to approximately $11 million in excess of amounts reserved. This estimate was derived by modifying the key assumptions previously discussed to reflect management s judgment regarding reasonably possible adverse changes to those assumptions. The actual repurchase losses could vary significantly from the recorded mortgage representation

and warranty reserve or this estimate of reasonably possible losses, depending on the outcome of various factors, including those previously discussed.

For both the three months ended September 30, 2016 and 2015, the Bancorp paid an immaterial amount in the form of make whole payments and repurchased $4 million and $7 million, respectively, in outstanding principal of loans to satisfy investor demands. For the nine months ended September 30, 2016 and 2015, the Bancorp paid an immaterial amount and $2 million, respectively, in the form of make whole payments and repurchased $10 million and $64 million, respectively, in outstanding principal of loans to satisfy investor demands. Total repurchase demand requests during the three months ended September 30, 2016 and 2015 were $8 million and $7 million, respectively. Total repurchase demand requests for the nine months ended September 30, 2016 and 2015 were $18 million and $68 million, respectively. Total outstanding repurchase demand inventory was $7 million and $4 million at September 30, 2016 and December 31, 2015, respectively.

The following table summarizes activity in the reserve for representation and warranty provisions:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Balance, beginning of period	**$ 21**	32	**25**	35
Net reductions to the reserve	**(3)**	(3)	**(7)**	(1)
Losses charged against the reserve	**-**	(1)	**-**	(6)
Balance, end of period	**$ 18**	28	**18**	28

The following tables provide a rollforward of unresolved claims by claimant type for the nine months ended:

	GSE		Private Label	
September 30, 2016 ($ in millions)	Units	Dollars	Units	Dollars
Balance, beginning of period	**16**	**$ 4**	**2**	**$ -**
New demands	**253**	**18**	**4**	**-**
Loan paydowns/payoffs	**(8)**	**(1)**	**-**	**-**
Resolved demands	**(203)**	**(14)**	**(6)**	**-**
Balance, end of period	**58**	**$ 7**	**-**	**$ -**

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

	GSE		Private Label	
September 30, 2015 ($ in millions)	Units	Dollars	Units	Dollars
Balance, beginning of period	37	$ 6	1	$ 1
New demands	350	26	257	42
Loan paydowns/payoffs	(26)	(2)	-	-
Resolved demands	(337)	(26)	(258)	(43)
Balance, end of period	24	$ 4	-	$ -

Residential mortgage loans sold with credit recourse

The Bancorp sold certain residential mortgage loans in the secondary market with credit recourse. In the event of any customer default, pursuant to the credit recourse provided, the Bancorp is required to reimburse the third party. The maximum amount of credit risk in the event of nonperformance by the underlying borrowers is equivalent to the total outstanding balance. In the event of nonperformance, the Bancorp has rights to the underlying collateral value securing the loan. The outstanding balances on these loans sold with credit recourse were $396 million and $465 million at September 30, 2016 and December 31, 2015, respectively, and the delinquency rates were 3.0% at both September 30, 2016 and December 31, 2015. The Bancorp maintained an estimated credit loss reserve on these loans sold with credit recourse of $7 million and $9 million, respectively, at September 30, 2016 and December 31, 2015, recorded in other liabilities in the Condensed Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of residential mortgage loans held in its loan portfolio.

Margin accounts

FTS, an indirect wholly-owned subsidiary of the Bancorp, guarantees the collection of all margin account balances held by its brokerage clearing agent for the benefit of its customers. FTS is responsible for payment to its brokerage clearing agent for any loss, liability, damage, cost or expense incurred as a result of customers failing to comply with margin or margin maintenance calls on all margin accounts. The margin account balance held by the brokerage clearing agent was $15 million and $10 million at September 30, 2016 and December 31, 2015, respectively. In the event of any customer default, FTS has rights to the underlying collateral provided. Given the existence of the underlying collateral provided and negligible historical credit losses, the Bancorp does not maintain a loss reserve related to the margin accounts.

Long-term borrowing obligations

The Bancorp had certain fully and unconditionally guaranteed long-term borrowing obligations issued by wholly-owned issuing trust entities of $62 million at both September 30, 2016 and December 31, 2015.

Visa litigation

The Bancorp, as a member bank of Visa prior to Visa s reorganization and IPO (the IPO) of its Class A common shares (the Class A Shares) in 2008, had certain indemnification obligations pursuant to Visa s certificate of incorporation and by-laws and in accordance with their membership agreements. In accordance with Visa s by-laws prior to the IPO, the Bancorp could have been required to indemnify Visa for the Bancorp s proportional share of losses based on the pre-IPO membership interests. As part of its reorganization and IPO, the Bancorp s indemnification obligation was modified to include only certain known or anticipated litigation (the Covered Litigation) as of the date of the restructuring. This modification triggered a requirement for the Bancorp to recognize a liability equal to the fair value of the indemnification liability.

In conjunction with the IPO, the Bancorp received 10.1 million of Visa s Class B common shares (the Class B Shares) based on the Bancorp s membership percentage in Visa prior to the IPO. The Class B Shares are not transferable (other than to another member bank) until the later of the third anniversary of the IPO closing or the date which the Covered Litigation has been resolved; therefore, the Bancorp s Class B Shares were classified in other assets and accounted for at their carryover basis of $0. Visa initially deposited $3 billion of the proceeds from the IPO into a litigation escrow account, established for the purpose of funding judgments in, or settlements of, the Covered Litigation. Since then, when Visa s litigation committee determined that the escrow account was insufficient; Visa issued additional Class A Shares and deposited the proceeds from the sale of the Class A Shares into the litigation escrow account. When Visa funded the litigation escrow account, the Class B Shares were subjected to dilution through an adjustment in the conversion rate of Class B Shares into Class A Shares.

In 2009, the Bancorp completed the sale of Visa, Inc. Class B Shares and entered into a total return swap in which the Bancorp will make or receive payments based on subsequent changes in the conversion rate of the Class B Shares into Class A Shares. The swap terminates on the later of the third anniversary of Visa s IPO or the date on which the Covered Litigation is settled. Refer to Note 22 for additional information on the valuation of the swap. The counterparty to the swap as a result of its ownership of the Class B Shares will be impacted by dilutive adjustments to the conversion rate of the Class B Shares into Class A Shares caused by any Covered Litigation losses in excess of the litigation escrow account. If actual judgments in, or settlements of, the Covered Litigation significantly exceed current expectations, then additional funding by Visa of the litigation escrow account and the resulting dilution of the Class B Shares could result in a scenario where the Bancorp s ultimate exposure associated with the Covered Litigation (the Visa Litigation Exposure) exceeds the value of the Class B Shares owned by the swap counterparty (the Class B Value). In the event the Bancorp concludes that it is probable that the Visa Litigation Exposure exceeds the Class B Value, the Bancorp would record a litigation reserve liability and a corresponding amount of other noninterest expense for the amount of the excess. Any such litigation reserve liability would be separate and distinct from the fair value derivative liability associated with the total return swap.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

As of the date of the Bancorp s sale of Visa Class B Shares and through September 30, 2016, the Bancorp has concluded that it is not probable that the Visa Litigation Exposure will exceed the Class B value. Based on this determination, upon the sale of Class B Shares, the Bancorp reversed its net Visa litigation reserve liability and recognized a free-standing derivative liability associated with the total return swap. The fair value of the swap liability was $103 million at September 30, 2016 and $61 million at December 31, 2015. Refer to Note 12 and Note 17 for further information.

After the Bancorp s sale of Visa Class B Shares, Visa has funded additional amounts into the litigation escrow account which have resulted in further dilutive adjustments to the conversion of Class B Shares into Class A Shares, and along with other terms of the total return swap, required the Bancorp to make cash payments in varying amounts to the swap counterparty as follows:

Period ($ in millions)	Visa Funding Amount	Bancorp Cash Payment Amount
Q2 2010	$ 500	20
Q4 2010	800	35
Q2 2011	400	19
Q1 2012	1,565	75
Q3 2012	150	6
Q3 2014	450	18

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

17. Legal and Regulatory Proceedings

Litigation

Visa/Mastercard Merchant Interchange Litigation

In April 2006, the Bancorp was added as a defendant in a consolidated antitrust class action lawsuit originally filed against Visa®, MasterCard® and several other major financial institutions in the United States District Court for the Eastern District of New York. The plaintiffs, merchants operating commercial businesses throughout the U.S. and trade associations, claimed that the interchange fees charged by card-issuing banks were unreasonable and sought injunctive relief and unspecified damages. In addition to being a named defendant, the Bancorp is also subject to a possible indemnification obligation of Visa as discussed in Note 16 and has also entered into judgment and loss sharing agreements with Visa, MasterCard and certain other named defendants. In October 2012, the parties to the litigation entered into a settlement agreement. On January 14, 2014, the trial court entered a final order approving the class settlement. A number of merchants filed appeals from that approval. The U.S. Court of Appeals for the Second Circuit held a hearing on those appeals and on June 30, 2016, reversed the district court s approval of the class settlement, remanding the case to the district court for further proceedings. In rejecting the settlement, the appellate court found that counsel for plaintiffs was conflicted and thus could not adequately represent the plaintiff-class members of the separate monetary and injunctive relief settlement classes. The appellate court decertified the settlement classes, ordered that the case return to the trial court and directed the trial court to appoint separate counsel for the separate plaintiff classes. Pursuant to the terms of the overturned settlement agreement, the Bancorp previously paid $46 million into a class settlement escrow account. Because the appellate court ruling remands the case to the district court for further proceedings, the ultimate outcome in this matter is uncertain. Approximately 8,000 merchants requested exclusion from the class settlement, and therefore, pursuant to the terms of the settlement agreement, 25% of the funds paid into the class settlement escrow account were already returned to the control of the defendants. More than 460 of the merchants who requested exclusion from the class filed separate federal lawsuits against Visa, MasterCard and certain other defendants alleging similar antitrust violations. These opt-out federal lawsuits were transferred to the United States District Court for the Eastern District of New York. The Bancorp was not named as a defendant in any of the opt-out federal lawsuits, but may have obligations pursuant to indemnification arrangements and/or the judgment or loss sharing agreements noted above. On July 18, 2015, the court in which all the remaining opt-out federal lawsuits have been consolidated denied defendants motion to dismiss the complaints. Refer to Note 16 for further information.

Dudenhoeffer v. Fifth Third Bancorp

On March 29, 2016, the court in two class action lawsuits consolidated as Dudenhoeffer v. Fifth Third Bancorp et al. filed in 2008 in the United States District Court for the Southern District of Ohio preliminarily approved a settlement in which the Bancorp agreed to pay $6 million and make certain changes to the Bancorp s profit sharing plan. The complaints alleged that the Bancorp and certain officers violated ERISA by continuing to offer Fifth Third stock in the Bancorp s profit sharing plan when it was no longer a prudent investment. On July 11, 2016, the court issued a Final

Approval Order and Judgment approving the settlement in all respects and ordering that the settlement agreement be implemented in accordance with its terms.

Klopfenstein v. Fifth Third Bank

On August 3, 2012, William Klopfenstein and Adam McKinney filed a lawsuit against Fifth Third Bank in the United States District Court for the Northern District of Ohio (Klopfenstein et al. v. Fifth Third Bank), alleging that the 120% APR that Fifth Third disclosed on its Early Access program was misleading. Early Access is a deposit-advance program offered to eligible customers with checking accounts. The plaintiffs sought to represent a nationwide class of customers who used the Early Access program and repaid their cash advances within 30 days. On October 31, 2012, the case was transferred to the United States District Court for the Southern District of Ohio. In 2013, four similar putative class actions were filed against Fifth Third Bank in federal courts throughout the country (Lori and Danielle Laskaris v. Fifth Third Bank, Janet Fyock v. Fifth Third Bank, Jesse McQuillen v. Fifth Third Bank, and Brian Harrison v. Fifth Third Bank). Those four lawsuits were transferred to the Southern District of Ohio and consolidated with the original lawsuit as In re: Fifth Third Early Access Cash Advance Litigation. On behalf of a putative class, the plaintiffs seek unspecified monetary and statutory damages, injunctive relief, punitive damages, attorney s fees, and pre- and post-judgment interest. On March 30, 2015, the court dismissed all claims alleged in the consolidated lawsuit except a claim under the TILA. The parties are currently engaged in discovery. No trial date has been scheduled.

Nina Investments, LLC v. Fifth Third Bank

On July 5, 2012, Nina Investments, LLC (Nina) filed a lawsuit against Fifth Third Bank (Nina Investments, LLC. v. Fifth Third Bank, et al.) in the Circuit Court of Cook County, Illinois, alleging fraud and conspiracy to commit fraud related to a credit facility established by Fifth Third Bank in 2007 to finance life insurance premiums. Nina invested funds in an entity related to the borrower under the credit facility and is claiming over $70 million in damages based on its alleged loss of these funds. Nina alleges that it would have made different investment decisions if Fifth Third had disclosed fraud committed by the borrower with the alleged knowledge of Fifth Third employees. Nina filed this lawsuit in response to a lawsuit filed by Fifth Third Bank in the same court on June 11, 2010 against Nina and other defendants (Fifth Third Bank v. Concord Capital Management, LLC, et al.) alleging fraud and breach of contract. In 2015, the court dismissed Fifth Third s contract and fraud claims against certain defendants but Fifth Third currently has claims pending against other defendants, including a newly asserted claim for fraudulent conveyance against Nina. On October 20, 2016, the court denied Fifth Third s motion to assert a new claim against Nina and other investors for fraudulent inducement of a guarantee related to the credit facility and to reassert claims for breach of guarantee against certain of the investors who also acted as guarantors. The trial has been scheduled in these consolidated actions for April 24, 2017.

Other Litigation

The Bancorp and its subsidiaries are not parties to any other material litigation. However, there are other litigation matters that arise in the normal course of business. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, management believes that the resulting liability, if any, from these other actions would not have a material effect upon the Bancorp s consolidated financial position, results of operations or cash flows.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Governmental Investigations and Proceedings

The Bancorp and/or its affiliates are involved in information-gathering requests, reviews, investigations and proceedings (both formal and informal) by various governmental regulatory agencies and law enforcement authorities, including but not limited to the CFPB, FINRA, etc., as well as self-regulatory bodies regarding their respective businesses. Additional matters will likely arise from time to time. Any of these matters may result in material adverse consequences to the Bancorp, its affiliates and/or their respective directors, officers and other personnel, including adverse judgments, findings, settlements, fines, penalties, orders, injunctions or other actions, amendments and/or restatements of the Bancorp s SEC filings and/or financial statements, as applicable, and/or determinations of material weaknesses in our disclosure controls and procedures. Investigations by regulatory authorities may from time to time result in civil or criminal referrals to law enforcement.

Reasonably Possible Losses in Excess of Accruals

The Bancorp and its subsidiaries are parties to numerous claims and lawsuits as well as threatened or potential actions or claims concerning matters arising from the conduct of its business activities. The outcome of claims or litigation and the timing of ultimate resolution are inherently difficult to predict. The following factors, among others, contribute to this lack of predictability: claims often include significant legal uncertainties, damages alleged by plaintiffs are often unspecified or overstated, discovery may not have started or may not be complete and material facts may be disputed or unsubstantiated. As a result of these factors, the Bancorp is not always able to provide an estimate of the range of reasonably possible outcomes for each claim. An accrual for a potential litigation loss is established when information related to the loss contingency indicates both that a loss is probable and that the amount of loss can be reasonably estimated. Any such accrual is adjusted from time to time thereafter as appropriate to reflect changes in circumstances. The Bancorp also determines, when possible (due to the uncertainties described above), estimates of reasonably possible losses or ranges of reasonably possible losses, in excess of amounts accrued. Under U.S. GAAP, an event is reasonably possible if the chance of the future event or events occurring is more than remote but less than likely and an event is remote if the chance of the future event or events occurring is slight. Thus, references to the upper end of the range of reasonably possible loss for cases in which the Bancorp is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the Bancorp believes the risk of loss is more than slight. For matters where the Bancorp is able to estimate such possible losses or ranges of possible losses, the Bancorp currently estimates that it is reasonably possible that it could incur losses related to legal and regulatory proceedings in an aggregate amount up to approximately $41 million in excess of amounts accrued, with it also being reasonably possible that no losses will be incurred in these matters. The estimates included in this amount are based on the Bancorp s analysis of currently available information, and as new information is obtained the Bancorp may change its estimates.

For these matters and others where an unfavorable outcome is reasonably possible but not probable, there may be a range of possible losses in excess of the established accrual that cannot be estimated. Based on information currently available, advice of counsel, available insurance coverage and established accruals, the Bancorp believes that the eventual outcome of the actions against the Bancorp and/or its subsidiaries, including the matters described above,

will not, individually or in the aggregate, have a material adverse effect on the Bancorp s consolidated financial position. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, may be material to the Bancorp s results of operations for any particular period, depending, in part, upon the size of the loss or liability imposed and the operating results for the applicable period.

18. Related Party Transactions

On July 27, 2016, the Bancorp entered into an agreement with Vantiv, Inc. under which a portion of its TRAs with Vantiv, Inc. was terminated and settled in full for consideration of a cash payment in the amount of $116 million from Vantiv, Inc. Under the agreement, the Bancorp terminated and settled certain TRA cash flows it expected to receive in the years 2019 to 2035, totaling an estimated $331 million. The Bancorp recognized a pre-tax gain of $116 million in other noninterest income in the Condensed Consolidated Statements of Income from this settlement in the third quarter of 2016.

Additionally, the agreement provides that Vantiv, Inc. may be obligated to pay up to a total of approximately $171 million to the Bancorp to terminate and settle certain remaining TRA cash flows, totaling an estimated $394 million, upon the exercise of certain call options by Vantiv, Inc. or certain put options by the Bancorp. If the associated call options or put options are exercised, 10% of the obligations would be settled with respect to each quarter in 2017 and 15% of the obligations would be settled with respect to each quarter in 2018. The Bancorp recognized a pre-tax gain of $164 million in other noninterest income in the Condensed Consolidated Statements of Income in the third quarter of 2016 associated with these options.

This agreement does not impact the TRA payments expected to be recognized in the fourth quarter of 2016 and the fourth quarter of 2017 which are expected to be received in the first quarter of 2017 and the first quarter of 2018, respectively.

19. Income Taxes

The applicable income tax expense was $178 million and $134 million for the three months ended September 30, 2016 and 2015, respectively, and was $385 million and $367 million for the nine months ended September 30, 2016 and 2015, respectively. The effective tax rates for the three months ended September 30, 2016 and 2015 were 25.6% and 26.0%, respectively, and were 24.6% and 25.9% for the nine months ended September 30, 2016 and 2015, respectively. The decrease in the effective tax rate for the nine months ended September 30, 2016 compared to the same period in the prior year was primarily related to gains on sales of certain leveraged leases that are exempt from federal taxation partially offset by Vantiv, Inc. related gains.

While it is reasonably possible that the amount of the unrecognized tax benefits with respect to certain of the Bancorp s uncertain tax positions could increase or decrease during the next 12 months, the Bancorp believes it is unlikely that its unrecognized tax benefits will change by a material amount during the next 12 months.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

20. Accumulated Other Comprehensive Income

The tables below present the activity of the components of OCI and AOCI for the three months ended:

September 30, 2016 ($ in millions)		Total Other Comprehensive Income Pretax Activity	Tax Effect	Net Activity	Total Accumulated Other Comprehensive Income Beginning Balance	Net Activity	Ending Balance
Unrealized holding losses on available-for-sale securities arising during period	$	(149)	36	(113)			
Reclassification adjustment for net gains on available-for-sale securities included in net income		(2)	1	(1)			
Net unrealized gains on available-for-sale securities		(151)	37	(114)	879	(114)	765
Unrealized holding losses on cash flow hedge derivatives arising during period		(23)	8	(15)			
Reclassification adjustment for net gains on cash flow hedge derivatives included in net income		(11)	4	(7)			
Net unrealized gains on cash flow hedge derivatives		(34)	12	(22)	70	(22)	48
Net actuarial loss arising during the period		(5)	2	(3)			
Reclassification of amounts to net periodic benefit costs		8	(3)	5			
Defined benefit pension plans, net		3	(1)	2	(60)	2	(58)
Total	$	(182)	48	(134)	889	(134)	755

September 30, 2015 ($ in millions)		Total Other Comprehensive Income Pretax Activity	Tax Effect	Net Activity	Total Accumulated Other Comprehensive Income Beginning Balance	Net Activity	Ending Balance
Unrealized holding gains on available-for-sale securities arising during period	$	319	(111)	208			

Reclassification adjustment for net gains on available-for-sale securities included in net income	(10)	3	(7)			
Net unrealized gains on available-for-sale securities	309	(108)	201	327	201	528
Unrealized holding gains on cash flow hedge derivatives arising during period	65	(23)	42			
Reclassification adjustment for net gains on cash flow hedge derivatives included in net income	(20)	7	(13)			
Net unrealized gains on cash flow hedge derivatives	45	(16)	29	29	29	58
Net actuarial loss arising during the period	(1)	-	(1)			
Reclassification of amounts to net periodic benefit costs	3	(1)	2			
Defined benefit pension plans, net	2	(1)	1	(65)	1	(64)
Total	$ 356	(125)	231	291	231	522

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The tables below present the activity of the components of OCI and AOCI for the nine months ended:

		Total Other Comprehensive Income			Total Accumulated Other Comprehensive Income		
September 30, 2016 ($ in millions)		Pretax Activity	Tax Effect	Net Activity	Beginning Balance	Net Activity	Ending Balance
Unrealized holding gains on available-for-sale securities arising during period	**$**	**855**	**(317)**	**538**			
Reclassification adjustment for net gains on available-for-sale securities included in net income		**(18)**	**7**	**(11)**			
Net unrealized gains on available-for-sale securities		**837**	**(310)**	**527**	**238**	**527**	**765**
Unrealized holding gains on cash flow hedge derivatives arising during period		**77**	**(28)**	**49**			
Reclassification adjustment for net gains on cash flow hedge derivatives included in net income		**(37)**	**14**	**(23)**			
Net unrealized gains on cash flow hedge derivatives		**40**	**(14)**	**26**	**22**	**26**	**48**
Net actuarial loss arising during the period		**(5)**	**2**	**(3)**			
Reclassification of amounts to net periodic benefit costs		**12**	**(4)**	**8**			
Defined benefit pension plans, net		**7**	**(2)**	**5**	**(63)**	**5**	**(58)**
Total	**$**	**884**	**(326)**	**558**	**197**	**558**	**755**

		Total Other Comprehensive Income			Total Accumulated Other Comprehensive Income		
September 30, 2015 ($ in millions)		Pretax Activity	Tax Effect	Net Activity	Beginning Balance	Net Activity	Ending Balance
Unrealized holding gains on available-for-sale securities arising during period	$	98	(34)	64			
Reclassification adjustment for net gains on available-for-sale securities included in net income		(16)	5	(11)			

Net unrealized gains on available-for-sale securities	82	(29)	53	475	53	528
Unrealized holding gains on cash flow hedge derivatives arising during period	109	(38)	71			
Reclassification adjustment for net gains on cash flow hedge derivatives included in net income	(55)	19	(36)			
Net unrealized gains on cash flow hedge derivatives	54	(19)	35	23	35	58
Net actuarial loss arising during the period	(4)	1	(3)			
Reclassification of amounts to net periodic benefit costs	12	(4)	8			
Defined benefit pension plans, net	8	(3)	5	(69)	5	(64)
Total	$ 144	(51)	93	429	93	522

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The table below presents reclassifications out of AOCI:

Components of AOCI: ($ in millions)	Affected Line Item in the Condensed Consolidated Statements of Income	For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	**2016**	2015
Net unrealized gains on available-for-sale securities:[b]					
Net gains included in net income	Securities gains, net	**$ 2**	10	**18**	16
	Income before income taxes	**2**	10	**18**	16
	Applicable income tax expense	**(1)**	(3)	**(7)**	(5)
	Net income	**1**	7	**11**	11
Net unrealized gains on cash flow hedge derivatives:[b]					
Interest rate contracts related to C&I loans	Interest and fees on loans and leases	**11**	20	**37**	55
	Income before income taxes	**11**	20	**37**	55
	Applicable income tax expense	**(4)**	(7)	**(14)**	(19)
	Net income	**7**	13	**23**	36
Net periodic benefit costs:[b]					
Amortization of net actuarial loss	Employee benefits expense[a]	**(2)**	(2)	**(7)**	(7)
Settlements	Employee benefits expense[a]	**(6)**	(1)	**(5)**	(5)
	Income before income taxes	**(8)**	(3)	**(12)**	(12)
	Applicable income tax expense	**3**	1	**4**	4
	Net income	**(5)**	(2)	**(8)**	(8)
Total reclassifications for the period	Net income	**$ 3**	18	**26**	39

(a) This AOCI component is included in the computation of net periodic benefit cost. Refer to Note 21 in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015 for information on the computation of net periodic benefit cost.

(b) Amounts in parentheses indicate reductions to net income.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

21. Earnings Per Share

The following tables provide the calculation of earnings per share and the reconciliation of earnings per share and earnings per diluted share:

For the three months ended September 30,		2016			2015		
(in millions, except per share data)		Income	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount
Earnings Per Share:							
Net income attributable to Bancorp	$	**516**			381		
Dividends on preferred stock		**15**			15		
Net income available to common shareholders		**501**			366		
Less: Income allocated to participating securities		**5**			4		
Net income allocated to common shareholders	$	**496**	**751**	**0.66**	362	796	0.46
Earnings Per Diluted Share:							
Net income available to common shareholders	$	**501**			366		
Effect of dilutive securities:							
Stock-based awards		**-**	**6**		-	9	
Net income available to common shareholders plus assumed conversions		**501**			366		
Less: Income allocated to participating securities		**5**			4		
Net income allocated to common shareholders plus assumed conversions	$	**496**	**757**	**0.65**	362	805	0.45

For the nine months ended September 30,		2016			2015		
(in millions, except per share data)		Income	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount
Earnings Per Share:							
Net income attributable to Bancorp	$	**1,175**			1,056		
Dividends on preferred stock		**52**			52		
Net income available to common shareholders		**1,123**			1,004		
Less: Income allocated to participating securities		**11**			10		
Net income allocated to common shareholders	$	**1,112**	**761**	**1.46**	994	803	1.24
Earnings Per Diluted Share:							
Net income available to common shareholders	$	**1,123**			1,004		
Effect of dilutive securities:							

Stock-based awards	**-**	**6**		-	9	
Net income available to common shareholders plus assumed conversions	**1,123**			1,004		
Less: Income allocated to participating securities	**11**			10		
Net income allocated to common shareholders plus assumed conversions	**$ 1,112**	**767**	**1.45**	994	812	1.22

Shares are excluded from the computation of net income per diluted share when their inclusion has an anti-dilutive effect on earnings per share. The diluted earnings per share computation for both the three and nine months ended September 30, 2016 excludes 20 million of SARs and an immaterial amount of stock options because their inclusion would have been anti-dilutive. The diluted earnings per share computation for the three and nine months ended September 30, 2015 excludes 16 million and 15 million, respectively, of SARs and an immaterial amount of stock options because their inclusion would have been anti-dilutive.

The diluted earnings per share computation for the three and nine months ended September 30, 2016 excludes the impact of the forward contract related to the August 5, 2016 accelerated share repurchase transaction. Based upon the average daily volume weighted-average price of the Bancorp s common stock from the repurchase date through the end of the third quarter of 2016, the counterparty to the transaction would have been required to deliver additional shares for the settlement of the forward contract as of September 30, 2016, and thus the impact of the forward contract related to the accelerated share repurchase transaction would have been anti-dilutive to earnings per share.

The diluted earnings per share computation for the three and nine months ended September 30, 2015 excludes the impact of the forward contract related to the September 9, 2015 accelerated share repurchase transaction. Based upon the average daily volume weighted-average price of the Bancorp s common stock from the repurchase date through the end of the third quarter of 2015, the counterparty to the transaction would have been required to deliver additional shares for the settlement of the forward contract as of September 30, 2015, and thus the impact of the forward contract related to the accelerated share repurchase transaction would have been anti-dilutive to earnings per share.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

22. Fair Value Measurements

The Bancorp measures certain financial assets and liabilities at fair value in accordance with U.S. GAAP, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument s fair value measurement. For more information regarding the fair value hierarchy, refer to Note 1 in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables summarize assets and liabilities measured at fair value on a recurring basis, including residential mortgage loans held for sale for which the Bancorp has elected the fair value option as of:

	Fair Value Measurements Using			
September 30, 2016 ($ in millions)	Level 1[(c)]	Level 2[(c)]	Level 3	Total Fair Value
Assets:				
Available-for-sale and other securities:				
U.S. Treasury and federal agencies securities	**$ 77**	**804**	**-**	**881**
Obligations of states and political subdivisions securities	**-**	**52**	**-**	**52**
Mortgage-backed securities:				
Agency residential mortgage-backed securities	**-**	**15,188**	**-**	**15,188**
Agency commercial mortgage-backed securities	**-**	**8,950**	**-**	**8,950**
Non-agency commercial mortgage-backed securities	**-**	**2,834**	**-**	**2,834**
Asset-backed securities and other debt securities	**-**	**2,083**	**-**	**2,083**
Equity securities[(a)]	**94**	**1**	**-**	**95**
Available-for-sale and other securities[(a)]	**171**	**29,912**	**-**	**30,083**
Trading securities:				
U.S. Treasury and federal agencies securities	**-**	**9**	**-**	**9**
Obligations of states and political subdivisions securities	**-**	**42**	**-**	**42**
Mortgage-backed securities:				

Agency residential mortgage-backed securities	-	13	-	13
Asset-backed securities and other debt securities	-	30	-	30
Equity securities	337	-	-	337
Trading securities	337	94	-	431
Residential mortgage loans held for sale	-	954	-	954
Residential mortgage loans[(b)]	-	-	149	149
Derivative assets:				
Interest rate contracts	-	1,227	33	1,260
Foreign exchange contracts	-	194	-	194
Equity contracts	-	-	325	325
Commodity contracts	17	94	-	111
Derivative assets[(d)]	17	1,515	358	1,890
Total assets	$ 525	32,475	507	33,507
Liabilities:				
Derivative liabilities:				
Interest rate contracts	$ 8	392	4	404
Foreign exchange contracts	-	186	-	186
Equity contracts	-	-	103	103
Commodity contracts	13	86	-	99
Derivative liabilities[(e)]	21	664	107	792
Short positions[(e)]	15	4	-	19
Total liabilities	$ 36	668	107	811

*(a) Excludes FHLB, FRB and DTCC restricted stock holdings totaling **$248**, **$357** and **$1**, respectively, at **September 30, 2016**.*

(b) Includes residential mortgage loans originated as held for sale and subsequently transferred to held for investment.

(c) During both the three and nine months ended September 30, 2016, no assets or liabilities were transferred between Level 1 and Level 2.

(d) Included in other assets in the Condensed Consolidated Balance Sheets.

(e) Included in other liabilities in the Condensed Consolidated Balance Sheets.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

	Fair Value Measurements Using			
December 31, 2015 ($ in millions)	Level 1[(c)]	Level 2[(c)]	Level 3	Total Fair Value
Assets:				
Available-for-sale and other securities:				
U.S. Treasury and federal agencies securities	$ 100	1,087	-	1,187
Obligations of states and political subdivisions securities	-	52	-	52
Mortgage-backed securities:				
Agency residential mortgage-backed securities	-	15,081	-	15,081
Agency commercial mortgage-backed securities	-	7,862	-	7,862
Non-agency commercial mortgage-backed securities	-	2,804	-	2,804
Asset-backed securities and other debt securities	-	1,355	-	1,355
Equity securities[(a)]	98	1	-	99
Available-for-sale and other securities[(a)]	198	28,242	-	28,440
Trading securities:				
U.S. Treasury and federal agencies securities	-	19	-	19
Obligations of states and political subdivisions securities	-	9	-	9
Mortgage-backed securities:				
Agency residential mortgage-backed securities	-	6	-	6
Asset-backed securities and other debt securities	-	19	-	19
Equity securities	333	-	-	333
Trading securities	333	53	-	386
Residential mortgage loans held for sale	-	519	-	519
Residential mortgage loans[(b)]	-	-	167	167
Derivative assets:				
Interest rate contracts	3	892	15	910
Foreign exchange contracts	-	386	-	386
Equity contracts	-	-	262	262
Commodity contracts	54	240	-	294
Derivative assets[(d)]	57	1,518	277	1,852
Total assets	$ 588	30,332	444	31,364
Liabilities:				
Derivative liabilities:				

Interest rate contracts	$ 1	257	3	261
Foreign exchange contracts	-	340	-	340
Equity contracts	-	-	61	61
Commodity contracts	37	239	-	276
Derivative liabilities[(e)]	38	836	64	938
Short positions[(e)]	22	7	-	29
Total liabilities	$ 60	843	64	967

(a) Excludes FHLB and FRB restricted stock totaling $248, $355 and $1, respectively, at December 31, 2015.
(b) Includes residential mortgage loans originated as held for sale and subsequently transferred to held for investment.
(c) During the year ended December 31, 2015, no assets or liabilities were transferred between Level 1 and Level 2.
(d) Included in other assets in the Condensed Consolidated Balance Sheets.
(e) Included in other liabilities in the Condensed Consolidated Balance Sheets.

The following is a description of the valuation methodologies used for significant instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale and other securities and trading securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or DCFs. Level 2 securities include federal agencies securities, obligations of states and political subdivisions securities, agency residential mortgage-backed securities, agency and non-agency commercial mortgage-backed securities, asset-backed securities and other debt securities and equity securities. These securities are generally valued using a market approach based on observable prices of securities with similar characteristics.

Residential mortgage loans held for sale

For residential mortgage loans held for sale for which the fair value election has been made, fair value is estimated based upon mortgage-backed securities prices and spreads to those prices or, for certain ARM loans, DCF models that may incorporate the anticipated portfolio composition, credit spreads of asset-backed securities with similar collateral and market conditions. The anticipated portfolio composition includes the effect of interest rate spreads and discount rates due to loan characteristics such as the state in which the loan was originated, the loan amount and the ARM margin. Residential mortgage loans held for sale that are valued based on mortgage-backed securities prices are classified within Level 2 of the valuation hierarchy as the valuation is based on external pricing for similar instruments. ARM loans classified as held for sale are also classified within Level 2 of the valuation hierarchy due to the use of observable inputs in the DCF model. These observable inputs include interest rate spreads from agency mortgage-backed securities market rates and observable discount rates.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Residential mortgage loans

Residential mortgage loans held for sale that are reclassified to held for investment are transferred from Level 2 to Level 3 of the fair value hierarchy. It is the Bancorp s policy to value any transfers between levels of the fair value hierarchy based on end of period fair values.

For residential mortgage loans for which the fair value election has been made, and that are reclassified from held for sale to held for investment, the fair value estimation is based on mortgage-backed securities prices, interest rate risk and an internally developed credit component. Therefore, these loans are classified within Level 3 of the valuation hierarchy. An adverse change in the loss rate or severity assumption would result in a decrease in fair value of the related loan. The Secondary Marketing department, which reports to the Bancorp s Head of the Consumer Bank, in conjunction with the Consumer Credit Risk department, which reports to the Bancorp s Chief Risk Officer, are responsible for determining the valuation methodology for residential mortgage loans held for investment. The Secondary Marketing department reviews loss severity assumptions quarterly to determine if adjustments are necessary based on decreases in observable housing market data. This group also reviews trades in comparable benchmark securities and adjusts the values of loans as necessary. Consumer Credit Risk is responsible for the credit component of the fair value which is based on internally developed loss rate models that take into account historical loss rates and loss severities based on underlying collateral values.

Derivatives

Exchange-traded derivatives valued using quoted prices and certain over-the-counter derivatives valued using active bids are classified within Level 1 of the valuation hierarchy. Most of the Bancorp s derivative contracts are valued using DCF or other models that incorporate current market interest rates, credit spreads assigned to the derivative counterparties and other market parameters and, therefore, are classified within Level 2 of the valuation hierarchy. Such derivatives include basic and structured interest rate, foreign exchange and commodity swaps and options. Derivatives that are valued based upon models with significant unobservable market parameters are classified within Level 3 of the valuation hierarchy. At September 30, 2016 and December 31, 2015, derivatives classified as Level 3, which are valued using models containing unobservable inputs, consisted primarily of a warrant associated with the initial sale of the Bancorp s 51% interest in Vantiv Holding, LLC to Advent International and a total return swap associated with the Bancorp s sale of Visa, Inc. Class B shares. Level 3 derivatives also include IRLCs, which utilize internally generated loan closing rate assumptions as a significant unobservable input in the valuation process.

As of September 30, 2016, the warrant allows the Bancorp to purchase approximately 7.8 million incremental nonvoting units in Vantiv Holding, LLC at an exercise price of $15.98 per unit and requires settlement under certain defined conditions involving change of control. The fair value of the warrant is calculated in conjunction with a third party valuation provider by applying Black-Scholes option-pricing models using probability weighted scenarios which contain the following inputs: Vantiv, Inc. stock price, strike price per the Warrant Agreement and unobservable inputs, such as expected term and expected volatility.

For the warrant, an increase in the expected term (years) and the expected volatility assumptions would result in an increase in the fair value; conversely, a decrease in these assumptions would result in a decrease in the fair value. The Accounting and Treasury departments, both of which report to the Bancorp s Chief Financial Officer, determined the valuation methodology for the warrant. Accounting and Treasury review changes in fair value on a quarterly basis for reasonableness based on changes in historical and implied volatilities, expected terms, probability weightings of the related scenarios, and other assumptions.

Under the terms of the total return swap, the Bancorp will make or receive payments based on subsequent changes in the conversion rate of the Visa, Inc. Class B shares into Class A shares. Additionally, the Bancorp will make a quarterly payment based on Visa s stock price and the conversion rate of the Visa, Inc. Class B shares into Class A shares until the date on which the Covered Litigation is settled. The fair value of the total return swap was calculated using a DCF model based on unobservable inputs consisting of management s estimate of the probability of certain litigation scenarios, the timing of the resolution of the Covered Litigation and Visa litigation loss estimates in excess, or shortfall, of the Bancorp s proportional share of escrow funds.

An increase in the loss estimate or a delay in the resolution of the Covered Litigation would result in an increase in fair value; conversely, a decrease in the loss estimate or an acceleration of the resolution of the Covered Litigation would result in a decrease in fair value. The Accounting and Treasury departments determined the valuation methodology for the total return swap. Accounting and Treasury review the changes in fair value on a quarterly basis for reasonableness based on Visa stock price changes, litigation contingencies, and escrow funding.

The net fair value asset of the IRLCs at September 30, 2016 was $33 million. Immediate decreases in current interest rates of 25 bps and 50 bps would result in increases in the fair value of the IRLCs of approximately $7 million and $14 million, respectively. Immediate increases of current interest rates of 25 bps and 50 bps would result in decreases in the fair value of the IRLCs of approximately $8 million and $17 million, respectively. The decrease in fair value of IRLCs due to immediate 10% and 20% adverse changes in the assumed loan closing rates would be approximately $3 million and $7 million, respectively, and the increase in fair value due to immediate 10% and 20% favorable changes in the assumed loan closing rates would be approximately $3 million and $7 million, respectively. These sensitivities are hypothetical and should be used with caution, as changes in fair value based on a variation in assumptions typically cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear.

The Consumer Line of Business Finance department, which reports to the Bancorp s Chief Financial Officer, and the aforementioned Secondary Marketing department are responsible for determining the valuation methodology for IRLCs. Secondary Marketing, in conjunction with a third party valuation provider, periodically review loan closing rate assumptions and recent loan sales to determine if adjustments are needed for current market conditions not reflected in historical data.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables are a reconciliation of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Lev			
For the three months ended September 30, 2016 ($ in millions)	Residential Mortgage Loans	Interest Rate Derivatives, Net[(a)]	Equity Derivatives, Net[(a)]	Total Fair Value
Balance, beginning of period	$ 154	30	228	412
Total gains (losses) (realized/unrealized):				
Included in earnings	**-**	**42**	**(14)**	**28**
Purchases	**-**	**(1)**	**-**	**(1)**
Settlements	**(8)**	**(42)**	**8**	**(42)**
Transfers into Level 3[(b)]	**3**	**-**	**-**	**3**
Balance, end of period	**$ 149**	**29**	**222**	**400**
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2016[(c)]	**$ -**	**33**	**(14)**	**19**

*(a) Net interest rate derivatives include derivative assets and liabilities of **$33** and **$4**, respectively, as of **September 30, 2016**. Net equity derivatives include derivative assets and liabilities of **$325** and **$103**, respectively, as of **September 30, 2016**.*

(b) Includes certain residential mortgage loans originated as held for sale that were transferred to held for investment.

(c) Includes interest income and expense.

	Fair Value Measurements Using Significant Unobservable Inputs (Level			
For the three months ended September 30, 2015 ($ in millions)	Residential Mortgage	Interest Rate	Equity Derivatives,	Total

	Loans	Derivatives, Net[a]	Net[a]	Fair Value
Balance, beginning of period	$ 178	10	445	633
Total gains (realized/unrealized):				
Included in earnings	1	38	122	161
Settlements	(8)	(32)	5	(35)
Transfers into Level 3[b]	2	-	-	2
Balance, end of period	$ 173	16	572	761
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2015[c]	$ 1	19	122	142

(a) Net interest rate derivatives include derivative assets and liabilities of $19 and $3, respectively, as of September 30, 2015. Net equity derivatives include derivative assets and liabilities of $630 and $58, respectively, as of September 30, 2015.
(b) Includes certain residential mortgage loans held for sale that were transferred to held for investment.
(c) Includes interest income and expense.

Fair Value Measurements Using Significant Unobservable Inputs (Leve

For the nine months ended September 30, 2016 ($ in millions)	Residential Mortgage Loans	Interest Rate Derivatives, Net[a]	Equity Derivatives, Net[a]	Total Fair Value
Balance, beginning of period	$ 167	12	201	380
Total gains (realized/unrealized):				
Included in earnings	**3**	**127**	**3**	**133**
Purchases	**-**	**(2)**	**-**	**(2)**
Settlements	**(30)**	**(108)**	**18**	**(120)**
Transfers into Level 3[b]	**9**	**-**	**-**	**9**
Balance, end of period	**$ 149**	**29**	**222**	**400**
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2016[c]	**$ 3**	**34**	**3**	**40**

*(a) Net interest rate derivatives include derivative assets and liabilities of **$33** and **$4**, respectively, as of **September 30, 2016**. Net equity derivatives include derivative assets and liabilities of **$325** and **$103**, respectively, as of **September 30, 2016**.*
(b) Includes certain residential mortgage loans held for sale that were transferred to held for investment.
(c) Includes interest income and expense.

111

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Fair Value Measurements Using Significant Unobservable Inputs (Leve

For the nine months ended September 30, 2015 ($ in millions)	Residential Mortgage Loans	Interest Rate Derivatives, Net[(a)]	Equity Derivatives, Net[(a)]	Total Fair Value
Balance, beginning of period	$ 108	10	366	484
Total gains (realized/unrealized):				
Included in earnings	2	90	188	280
Purchases	-	(1)	-	(1)
Settlements	(23)	(83)	18	(88)
Transfers into Level 3[(b)]	86	-	-	86
Balance, end of period	$ 173	16	572	761
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2015[(c)]	$ 2	20	188	210

(a) Net interest rate derivatives include derivative assets and liabilities of $19 and $3, respectively, as of September 30, 2015. Net equity derivatives include derivative assets and liabilities of $630 and $58, respectively, as of September 30, 2015.

(b) Includes certain residential mortgage loans originated as held for sale that were transferred to held for investment.

(c) Includes interest income and expense.

The total gains and losses included in earnings for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were recorded in the Condensed Consolidated Statements of Income as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Mortgage banking net revenue	**$ 42**	39	**129**	91
Corporate banking revenue	**-**	-	**1**	1

Other noninterest income	**(14)**	122	**3**	188
Total gains	**$ 28**	161	**133**	280

The total gains and losses included in earnings attributable to changes in unrealized gains and losses related to Level 3 assets and liabilities still held at September 30, 2016 and 2015 were recorded in the Condensed Consolidated Statements of Income as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2016**	2015	**2016**	2015
Mortgage banking net revenue	**$ 33**	20	**36**	21
Corporate banking revenue	**-**	-	**1**	1
Other noninterest income	**(14)**	122	**3**	188
Total gains	**$ 19**	142	**40**	210

The following tables present information as of September 30, 2016 and 2015 about significant unobservable inputs related to the Bancorp s material categories of Level 3 financial assets and liabilities measured at fair value on a recurring basis:

s of September 30, 2016 ($ in millions)

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
esidential mortgage loans	**$ 149**	Loss rate model	Interest rate risk factor	**(5.0) - 15.7%**	**5.1**
			Credit risk factor	**0 - 80.3%**	**1.2**
RLCs, net	**33**	Discounted cash flow	Loan closing rates	**6.5 - 94.0%**	**76.2**
tock warrant associated with Vantiv Holding, LLC	**325**	Black-Scholes option-pricing model	Expected term (years)	**2.0 - 12.8**	**5**
			Expected volatility[(a)]	**20.2 - 26.6%**	**23.6**
wap associated with the sale of Visa, Inc. lass B shares	**(103)**	Discounted cash flow	Timing of the resolution of the Covered Litigation	**12/31/2018 - 12/31/2022**	**NM**

(a) Based on historical and implied volatilities of Vantiv, Inc. and comparable companies assuming similar expected terms.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

As of September 30, 2015 ($ in millions)

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
Residential mortgage loans	$ 173	Loss rate model	Interest rate risk factor	(8.0) - 16.3%	4.0%
			Credit risk factor	0 - 80.5%	0.9%
IRLCs, net	19	Discounted cash flow	Loan closing rates	14.9 - 87.6%	61.3%
Stock warrant associated with Vantiv Holding, LLC	630	Black-Scholes option-pricing model	Expected term (years)	2.0 - 13.8	5.9
			Expected volatility[(a)]	22.7 - 32.4%	26.7%
Swap associated with the sale of Visa, Inc. Class B shares	(58)	Discounted cash flow	Timing of the resolution of the Covered Litigation	12/31/2016 - 3/31/2021	NM

(a) Based on historical and implied volatilities of Vantiv, Inc. and comparable companies assuming similar expected terms.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The following tables provide the fair value hierarchy and carrying amount of all assets that were held as of September 30, 2016 and 2015 and for which a nonrecurring fair value adjustment was recorded during the three and nine months ended September 30, 2016 and 2015, and the related gains and losses from fair value adjustments on assets sold during the period as well as assets still held as of the end of the period:

	Fair Value Measurements Using				Total (Losses) Gains	Total (Losses) Gains
As of September 30, 2016 ($ in millions)	Level 1	Level 2	Level 3	Total	**For the three months ended September 30, 2016**	**For the nine months ended September 30, 2016**
Commercial loans held for sale	**$ -**	**-**	**85**	**85**	**(21)**	**(28)**
Commercial and industrial loans	**-**	**-**	**321**	**321**	**(52)**	**(118)**
Commercial mortgage loans	**-**	**-**	**58**	**58**	**(1)**	**(2)**
Commercial construction loans	**-**	**-**	**-**	**-**	**-**	**2**
Commercial leases	**-**	**-**	**-**	**-**	**-**	**(1)**
MSRs	**-**	**-**	**619**	**619**	**7**	**(125)**
OREO	**-**	**-**	**46**	**46**	**(5)**	**(14)**
Bank premises and equipment	**-**	**-**	**67**	**67**	**(28)**	**(31)**
Operating lease equipment	**-**	**-**	**39**	**39**	**(4)**	**(9)**
Private equity investments	**-**	**-**	**63**	**63**	**(9)**	**(9)**
Total	**$ -**	**-**	**1,298**	**1,298**	**(113)**	**(335)**

	Fair Value Measurements Using				Total Losses	Total (Losses) Gains
As of September 30, 2015 ($ in millions)	Level 1	Level 2	Level 3	Total	For the three months ended September 30, 2015	For the nine months ended September 30, 2015
Commercial loans held for sale	$ **-**	**-**	14	14	-	3
Residential mortgage loans held for sale	**-**	**-**	96	96	-	(2)
Automobile loans held for sale	**-**	**-**	2	2	-	-
Credit cards held for sale	**-**	**-**	4	4	(1)	(1)
Commercial and industrial loans	**-**	-	290	290	(57)	(98)
Commercial mortgage loans	**-**	**-**	112	112	(19)	(36)
Commercial construction loans	**-**	**-**	9	9	(2)	(2)
Residential mortgage loans	**-**	**-**	55	55	-	(1)
MSRs	**-**	**-**	756	756	(77)	(38)
OREO	-	-	64	64	(3)	(16)
Bank premises and equipment	**-**	**-**	79	79	(1)	(102)
Operating lease equipment	**-**	**-**	53	53	(2)	(36)
Total	$ **-**	-	1,534	1,534	(162)	(329)

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables present information as of September 30, 2016 and 2015 about significant unobservable inputs related to the Bancorp s material categories of Level 3 financial assets and liabilities measured on a nonrecurring basis:

As of September 30, 2016 ($ in millions)

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
Commercial loans held for sale	**$ 85**	Appraised value	Appraised value	**NM**	**NM**
			Cost to sell	**NM**	**10.0%**
Commercial and industrial loans	**321**	Appraised value	Collateral value	**NM**	**NM**
Commercial mortgage loans	**58**	Appraised value	Collateral value	**NM**	**NM**
MSRs	**619**	Discounted cash flow	Prepayment speed	**0-100%**	**(Fixed) 14.9%** **(Adjustable) 27.1%**
			OAS spread (bps)	**100-1,515**	**(Fixed) 615** **(Adjustable) 724**
OREO	**46**	Appraised value	Appraised value	**NM**	**NM**
Bank premises and equipment	**67**	Appraised value	Appraised value	**NM**	**NM**
Operating lease equipment	**39**	Appraised value	Appraised value	**NM**	**NM**
Private equity investments	**63**	Liquidity discount applied to fund s net asset value	Liquidity discount	**5.0-37.5%**	**12.6%**

As of September 30, 2015 ($ in millions) Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
Commercial loans held for sale	$ 14	Discounted cash flow	Discount spread	NM	4.4%
Residential mortgage loans held for sale	96	Loss rate model	Interest rate risk factor Credit risk factor	(7.5) - 0.1% NM	(1.6)% 0.1%
Automobile loans held for sale	2	Discounted cash flow	Discount spread	NM	3.1%
Credit cards held for sale	4	Comparable transactions	Estimated sales proceeds from comparable transactions	NM	NM
Commercial and industrial loans	290	Appraised value	Collateral value	NM	NM
Commercial mortgage loans	112	Appraised value	Collateral value	NM	NM
Commercial construction loans	9	Appraised value	Collateral value	NM	NM
Residential mortgage loans	55	Appraised value	Appraised value	NM	NM
MSRs	756	Discounted cash flow	Prepayment speed	1.0 - 100%	(Fixed) 11.7% (Adjustable) 32.7%
			OAS spread (bps)	304-1,525	(Fixed) 706 (Adjustable) 668
OREO	64	Appraised value	Appraised value	NM	NM
Bank premises and equipment	79	Appraised value	Appraised value	NM	NM
Operating lease equipment	53	Appraised value	Appraised value	NM	NM

Commercial loans held for sale

The Bancorp had fair value adjustments on $112 million and $137 million of commercial loans transferred from the portfolio to loans held for sale that upon transfer were measured at the lower of cost or fair value during the three and nine months ended September 30, 2016, respectively. The Bancorp had fair value adjustments on an immaterial amount and $26 million of commercial loans transferred from the portfolio to loans held for sale that upon transfer were measured at the lower of cost or fair value during the three and nine months ended September 30, 2015, respectively. These fair value adjustments totaled $21 million and $26 million during the three and nine months ended September 30, 2016, respectively. These fair value adjustments totaled an immaterial amount and $1 million during the three and nine months ended September 30, 2015, respectively. The fair value adjustments were generally based on market trades, appraisals of the underlying collateral or were estimated by discounting future cash flows using the current market rates of loans to borrowers with similar credit characteristics, similar remaining maturities, prepayment speeds and loss severities and were, therefore, classified within Level 3 of the valuation hierarchy. Additionally, fair value adjustments on existing loans held for sale were immaterial for both the three and nine months ended September 30, 2016 and were immaterial and $1 million for the three and nine months ended September 30, 2015, respectively. The fair value adjustments were also based on appraisals of the underlying collateral. The Bancorp recognized an immaterial amount of gains on the sale of commercial loans held for sale during both the three months ended September 30, 2016 and September 30, 2015. The Bancorp recognized $2 million in losses on the sale of commercial loans held for sale during the nine months ended September 30, 2016 compared to $5 million in gains on the sale of commercial loans held for sale during the nine months ended September 30, 2015.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The Accounting department determines the procedures for the valuation of commercial loans held for sale using appraised value which may include a comparison to recently executed transactions of similar type loans. A monthly review of the portfolio is performed for reasonableness. Quarterly, appraisals approaching a year old are updated and the Real Estate Valuation group, which reports to the Bancorp s Chief Risk Officer, in conjunction with the Commercial Line of Business reviews the third party appraisals for reasonableness. Additionally, the Commercial Line of Business Finance department, which reports to the Bancorp s Chief Financial Officer, in conjunction with the Accounting department reviews all loan appraisal values, carry values and vintages. The Treasury department, which reports to the Bancorp s Chief Financial Officer, is responsible for the estimate of fair value adjustments when a discounted future cash flow valuation technique is employed.

Residential mortgage loans held for sale

During the three months ended September 30, 2015, the Bancorp did not transfer any residential mortgage loans from the portfolio to loans held for sale. During the nine months ended September 30, 2015, the Bancorp transferred $233 million of residential mortgage loans from the portfolio to loans held for sale that upon transfer were measured at the lower of cost or fair value using significant unobservable inputs. Fair values were estimated based on mortgage-backed securities prices, interest rate risk and an internally developed credit component. These loans had fair value adjustments during the three and nine months ended September 30, 2015, respectively, totaling an immaterial amount and $1 million. The Secondary Marketing department, which reports to the Bancorp s Head of the Consumer Bank, in conjunction with the Consumer Credit Risk department, which reports to the Bancorp s Chief Risk Officer, is responsible for determining the valuation methodology for residential mortgage loans held for investment. The Secondary Marketing department reviews loss severity assumptions quarterly to determine if adjustments are necessary based on decreases in observable housing market data. This group also reviews trades in comparable benchmark securities and adjusts the values of loans as necessary. Consumer Credit Risk is responsible for the credit component of the fair value which is based on internally developed loss rate models that take into account historical loss rates and loss severities based on underlying collateral values.

Commercial loans held for investment

During the three and nine months ended September 30, 2016 and 2015, the Bancorp recorded nonrecurring impairment adjustments to certain commercial and industrial loans, commercial mortgage loans, commercial construction loans and commercial leases held for investment. Larger commercial loans included within aggregate borrower relationship balances exceeding $1 million that exhibit probable or observed credit weaknesses are subject to individual review for impairment. The Bancorp considers the current value of collateral, credit quality of any guarantees, the guarantor s liquidity and willingness to cooperate, the loan structure and other factors when evaluating whether an individual loan is impaired. When the loan is collateral dependent, the fair value of the loan is generally based on the fair value of the underlying collateral supporting the loan and therefore these loans are classified within Level 3 of the valuation hierarchy. In cases where the carrying value exceeds the fair value, an impairment loss is recognized. The fair values and recognized impairment losses are reflected in the previous tables. Commercial Credit Risk, which reports to the Bancorp s Chief Risk Officer, is responsible for preparing and reviewing the fair value

estimates for commercial loans held for investment.

Residential mortgage loans

During the three months ended March 31, 2015, the Bancorp transferred approximately $55 million of restructured residential mortgage loans from held for sale to the portfolio as the Bancorp no longer had the intent to sell the loans. Upon transfer, the Bancorp recognized a nonrecurring fair value adjustment of $1 million on these loans, which had previously been transferred to held for sale in the fourth quarter of 2014.

MSRs

Mortgage interest rates increased during the three months ended September 30, 2016 and the Bancorp recognized a recovery of temporary impairment in certain classes of the MSR portfolio and the carrying value was adjusted to the fair value. Mortgage interest rates decreased during the nine months ended September 30, 2016 as well as during both the three and nine months ended September 30, 2015 and the Bancorp recognized temporary impairment in all classes of the MSR portfolio and the carrying value was adjusted to the fair value. MSRs do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Bancorp estimates the fair value of MSRs using internal OAS models with certain unobservable inputs, primarily prepayment speed assumptions, OAS and weighted-average lives, resulting in a classification within Level 3 of the valuation hierarchy. Refer to Note 11 for further information on the assumptions used in the valuation of the Bancorp s MSRs. The Secondary Marketing department and Treasury department are responsible for determining the valuation methodology for MSRs. Representatives from Secondary Marketing, Treasury, Accounting and Risk Management are responsible for reviewing key assumptions used in the internal OAS model. Two external valuations of the MSR portfolio are obtained from third parties that use valuation models in order to assess the reasonableness of the internal OAS model. Additionally, the Bancorp participates in peer surveys that provide additional confirmation of the reasonableness of key assumptions utilized in the MSR valuation process and the resulting MSR prices.

OREO

During the three and nine months ended September 30, 2016 and 2015, the Bancorp recorded nonrecurring adjustments to certain commercial and residential real estate properties classified as OREO and measured at the lower of carrying amount or fair value. These nonrecurring losses were primarily due to declines in real estate values of the properties recorded in OREO. These losses included $2 million and $7 million in losses, recorded as charge-offs, on new OREO properties transferred from loans during the three and nine months ended September 30, 2016, respectively, and $2 million and $10 million for the three and nine months ended September 30, 2015, respectively. These losses also included $3 million and $7 million in losses for the three and nine months ended September 30, 2016, respectively, and $1 million and $6 million in losses for the three and nine months ended September 30, 2015, respectively, recorded as negative fair value adjustments on OREO in other noninterest expense in the Condensed Consolidated Statements of Income subsequent to their transfer from loans. As discussed in the following paragraphs, the fair value amounts are generally based on appraisals of the property values, resulting in a classification within Level 3 of the valuation hierarchy. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized. The previous tables reflect the fair value measurements of the properties before deducting the estimated costs to sell.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The Real Estate Valuation department, which reports to the Bancorp s Chief Risk Officer, is solely responsible for managing the appraisal process and evaluating the appraisal for commercial properties transferred to OREO. All appraisals on commercial OREO properties are updated on at least an annual basis.

The Real Estate Valuation department reviews the BPO data and internal market information to determine the initial charge-off on residential real estate loans transferred to OREO. Once the foreclosure process is completed, the Bancorp performs an interior inspection to update the initial fair value of the property. These properties are reviewed at least every 30 days after the initial interior inspections are completed. The Asset Manager receives a monthly status report for each property which includes the number of showings, recently sold properties, current comparable listings and overall market conditions.

Bank premises and equipment

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. These properties are written down to their lower of cost or market values. At least annually thereafter, the Bancorp will review these properties for market fluctuations. The fair value amounts are generally based on appraisals of the property values, resulting in a classification within Level 3 of the valuation hierarchy. Corporate Facilities, which reports to the Bancorp s Chief Administrative Officer, in conjunction with Accounting, are responsible for preparing and reviewing the fair value estimates for bank premises. For further information on bank premises and equipment and discussion on changes to the branch network, refer to Note 7.

Operating lease equipment

During both the three and nine months ended September 30, 2016 and 2015, the Bancorp recorded nonrecurring impairment adjustments to certain operating lease equipment. When evaluating whether an individual asset is impaired, the Bancorp considers the current fair value of the asset, the changes in overall market demand for the asset and the rate of change in advancements associated with technological improvements that impact the demand for the specific asset under review. As part of this ongoing assessment, the Bancorp determined that the carrying values of certain operating lease equipment were not recoverable and as a result, the Bancorp recorded an impairment loss equal to the amount by which the carrying value of the assets exceeded the fair value. The fair value amounts were generally based on appraised values of the assets, resulting in a classification within Level 3 of the valuation hierarchy. The Commercial Leasing department, which reports to the Bancorp s Chief Operating Officer, is responsible for preparing and reviewing the fair value estimates for operating lease equipment.

Private equity investments

In December 2013, the U.S. banking agencies issued final rules to implement section 619 of the DFA, known as the Volcker Rule, which places limitations on banking organizations ability to own, sponsor or have certain relationships with certain private equity funds. On July 7, 2016, the FRB announced a third extension of the conformance period,

providing the industry until July 21, 2017 to conform investments in and relationships with covered funds that were in place prior to December 31, 2013. The extension does not apply to investments in and relationships with a covered fund made after December 31, 2013. The Bancorp recognized $9 million of OTTI primarily associated with certain nonconforming investments affected by the Volcker Rule during both the three and nine months ended September 30, 2016. The Bancorp performed nonrecurring fair value measurements on a fund by fund basis to determine whether OTTI existed. The Bancorp estimated the fair value of a fund by using the net asset value reported by the fund manager, and in some cases, applying an estimated market discount to the reported net asset value of the fund. Because the length of time until the investment will become redeemable is generally not certain, these funds were classified within Level 3 of the valuation hierarchy. An adverse change in the reported net asset values or estimated market discounts, where applicable, would result in a decrease in the fair value estimate. In cases where the carrying value exceeds the fair value, an impairment loss is recognized. The Bancorp s Private Equity department, which reports to the Chief Strategy Officer, in conjunction with Accounting, is responsible for preparing and reviewing the fair value estimates.

Fair Value Option

The Bancorp elected to measure certain residential mortgage loans held for sale under the fair value option as allowed under U.S. GAAP. Electing to measure residential mortgage loans held for sale at fair value reduces certain timing differences and better matches changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets. Management s intent to sell residential mortgage loans classified as held for sale may change over time due to such factors as changes in the overall liquidity in markets or changes in characteristics specific to certain loans held for sale. Consequently, these loans may be reclassified to loans held for investment and maintained in the Bancorp s loan portfolio. In such cases, the loans will continue to be measured at fair value.

Fair value changes recognized in earnings for instruments held at September 30, 2016 and 2015 for which the fair value option was elected, as well as the changes in fair value of the underlying IRLCs, included gains of $49 million and $32 million for the nine months ended September 30, 2016 and 2015, respectively. These gains are reported in mortgage banking net revenue in the Condensed Consolidated Statements of Income.

Valuation adjustments related to instrument-specific credit risk for residential mortgage loans measured at fair value negatively impacted the fair value of those loans by $2 million at both September 30, 2016 and December 31, 2015. Interest on residential mortgage loans measured at fair value is accrued as it is earned using the effective interest method and is reported as interest income in the Condensed Consolidated Statements of Income.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table summarizes the difference between the fair value and the unpaid principal balance for residential mortgage loans measured at fair value as of:

($ in millions)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
September 30, 2016			
Residential mortgage loans measured at fair value	**$ 1,103**	**1,054**	**49**
Past due loans of 90 days or more	**2**	**2**	**-**
Nonaccrual loans	**1**	**1**	**-**
December 31, 2015			
Residential mortgage loans measured at fair value	$ 686	669	17
Past due loans of 90 days or more	2	2	-
Nonaccrual loans	2	2	-

Fair Value of Certain Financial Instruments

The following tables summarize the carrying amounts and estimated fair values for certain financial instruments, excluding financial instruments measured at fair value on a recurring basis:

	Net Carrying	Fair Value Measurements Using			Total
As of September 30, 2016 ($ in millions)	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and due from banks	**$ 2,164**	**2,164**	**-**	**-**	**2,164**
Other securities	**606**	**-**	**606**	**-**	**606**
Held-to-maturity securities	**56**	**-**	**-**	**56**	**56**
Other short-term investments	**2,995**	**2,995**	**-**	**-**	**2,995**
Loans held for sale	**106**	**-**	**-**	**106**	**106**
Portfolio loans and leases:					
Commercial and industrial loans	**41,987**	**-**	**-**	**43,257**	**43,257**
Commercial mortgage loans	**6,770**	**-**	**-**	**6,714**	**6,714**
Commercial construction loans	**3,891**	**-**	**-**	**3,629**	**3,629**
Commercial leases	**3,981**	**-**	**-**	**3,718**	**3,718**
Residential mortgage loans	**14,398**	**-**	**-**	**15,282**	**15,282**
Home equity	**7,806**	**-**	**-**	**8,636**	**8,636**
Automobile loans	**10,307**	**-**	**-**	**10,037**	**10,037**

Credit card		**2,075**	**-**	**-**	**2,450**	**2,450**
Other consumer loans and leases		**630**	**-**	**-**	**642**	**642**
Unallocated ALLL		**(115)**	**-**	**-**	**-**	**-**
Total portfolio loans and leases, net	**$**	**91,730**	**-**	**-**	**94,365**	**94,365**
Financial liabilities:						
Deposits	**$**	**101,271**	**-**	**101,309**	**-**	**101,309**
Federal funds purchased		**126**	**126**	**-**	**-**	**126**
Other short-term borrowings		**3,494**	**-**	**3,494**	**-**	**3,494**
Long-term debt		**16,890**	**16,927**	**720**	**-**	**17,647**

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

		Net Carrying	Fair Value Measurements Using			Total
As of December 31, 2015 ($ in millions)		Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:						
Cash and due from banks	$	2,540	2,540	-	-	2,540
Other securities		604	-	604	-	604
Held-to-maturity securities		70	-	-	70	70
Other short-term investments		2,671	2,671	-	-	2,671
Loans held for sale		384	-	-	384	384
Portfolio loans and leases:						
Commercial and industrial loans		41,479	-	-	41,802	41,802
Commercial mortgage loans		6,840	-	-	6,656	6,656
Commercial construction loans		3,190	-	-	2,918	2,918
Commercial leases		3,807	-	-	3,533	3,533
Residential mortgage loans		13,449	-	-	14,061	14,061
Home equity		8,234	-	-	8,948	8,948
Automobile loans		11,453	-	-	11,170	11,170
Credit card		2,160	-	-	2,551	2,551
Other consumer loans and leases		646	-	-	643	643
Unallocated ALLL		(115)	-	-	-	-
Total portfolio loans and leases, net	$	91,143	-	-	92,282	92,282
Financial liabilities:						
Deposits	$	103,205	-	103,219	-	103,219
Federal funds purchased		151	151	-	-	151
Other short-term borrowings		1,507	-	1,507	-	1,507
Long-term debt[(a)]		15,810	15,603	625	-	16,228

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the classification of $34 of debt issuance costs from other assets to long-term debt. For further information, refer to Note 3.

Cash and due from banks, other securities, other short-term investments, deposits, federal funds purchased and other short-term borrowings For financial instruments with a short-term or no stated maturity, prevailing market rates and limited credit risk, carrying amounts approximate fair value. Those financial instruments include cash and due from banks, FHLB and FRB restricted stock, other short-term investments, certain deposits (demand, interest checking, savings, money market, foreign office deposits and other deposits), federal funds purchased, and other short-term borrowings excluding FHLB borrowings. Fair values for other time deposits, certificates of deposit $100,000 and over and FHLB borrowings were estimated using a DCF calculation that applies prevailing LIBOR/swap interest rates and a spread for new issuances with similar terms.

Held-to-maturity securities

The Bancorp s held-to-maturity securities are primarily composed of instruments that provide income tax credits as the economic return on the investment. The fair value of these instruments is estimated based on current U.S. Treasury tax credit rates.

Loans held for sale

Fair values for commercial loans held for sale were valued based on executable bids when available, or on DCF models incorporating appraisals of the underlying collateral, as well as assumptions about investor return requirements and amounts and timing of expected cash flows. Fair values for residential mortgage loans held for sale were valued based on estimated third-party valuations utilizing recent sales data from similar transactions. Broker opinion statements were also obtained as additional evidence to support the third-party valuations. Fair values for other consumer loans held for sale were based on contractual values upon which the loans may be sold to a third party, and approximate their carrying value.

Portfolio loans and leases, net

Fair values were estimated based on either appraisals of the underlying collateral or by discounting future cash flows using the current market rates of loans to borrowers with similar credit characteristics, similar remaining maturities, prepayment speeds and loss severities. The Bancorp estimates fair values at the transaction level whenever possible. For certain products with a large number of homogenous transactions, the Bancorp employs a pool approach. This approach involves stratifying and sorting the entire population of transactions into a smaller number of pools with like characteristics. Characteristics may include maturity date, coupon, origination date and principal amortization method.

Long-term debt

Fair value of long-term debt was based on quoted market prices, when available, or a DCF calculation using LIBOR/swap interest rates and, in some cases, Fifth Third credit and/or debt instrument spreads for new issuances with similar terms.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

23. Business Segments

The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Wealth and Asset Management (formerly Investment Advisors). 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 and businesses change.

The Bancorp manages interest rate risk centrally at the corporate level by employing an FTP methodology. This methodology insulates the business segments from interest rate volatility, enabling them to focus on serving customers through the origination of loans and acceptance of deposits. 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 Wealth and Asset Management, 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, 2016 to reflect the current market rates and updated market assumptions. These rates were generally higher than those in place during 2015, thus net interest income for deposit-providing businesses was positively impacted during 2016. FTP charge rates on assets were affected by the prevailing level of interest rates and by the duration and repricing characteristics of the portfolio. As overall market rates increased, the FTP charge increased for asset-generating businesses, thus negatively affecting net interest income during 2016. Credit rates for deposit products and charge rates for loan products may be reset periodically in response to changes in market conditions.

During the first quarter of 2016, the Bancorp refined its methodology for allocating provision expense to the business segments to include charges or benefits associated with changes in criticized commercial loan levels in addition to actual net charge-offs experienced by the loans and leases owned by each business segment. The results of operations and financial position for the three and nine months ended September 30, 2015 were adjusted to reflect this change. 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, 2015 were adjusted to reflect changes in internal expense allocation methodologies.

The following is a description of each of the Bancorp s business segments and the products and services they provide to their respective client bases.

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.

Branch Banking provides a full range of deposit and loan and lease products to individuals and small businesses through 1,191 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.

Consumer Lending includes the Bancorp s residential mortgage, home equity, automobile and other indirect lending activities. Direct lending activities include the origination, retention and servicing of residential 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.

Wealth and Asset Management provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. In the second quarter of 2016, the Investment Advisors segment name was changed to Wealth and Asset Management to better reflect the services provided by the business segment. Wealth and Asset Management 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.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables present the results of operations and assets by business segment for the three months ended:

September 30, 2016 ($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	General Corporate and Other	Eliminations	Total
Net interest income	**$ 456**	**414**	**63**	**40**	**(66)**	**-**	**907**
Provision for (benefit from) loan and lease losses	**(18)**	**34**	**12**	**-**	**52**	**-**	**80**
Net interest income after provision for loan and lease losses	**474**	**380**	**51**	**40**	**(118)**	**-**	**827**
Total noninterest income	**228**[(c)]	**163**[(b)]	**71**	**99**	**312**	**(33)**[(a)]	**840**
Total noninterest expense	**349**	**402**	**117**	**103**	**35**	**(33)**	**973**
Income before income taxes	**353**	**141**	**5**	**36**	**159**	**-**	**694**
Applicable income tax expense	**74**	**50**	**2**	**13**	**39**	**-**	**178**
Net income	**279**	**91**	**3**	**23**	**120**	**-**	**516**
Less: Net income attributable to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income attributable to Bancorp	**279**	**91**	**3**	**23**	**120**	**-**	**516**
Dividends on preferred stock	**-**	**-**	**-**	**-**	**15**	**-**	**15**
Net income available to common shareholders	**$ 279**	**91**	**3**	**23**	**105**	**-**	**501**
Total goodwill	**$ 613**	**1,655**	**-**	**148**	**-**	**-**	**2,416**
Total assets	**$ 59,392**	**54,955**	**22,430**	**8,437**	**(1,935)**[(d)]	**-**	**143,279**

(a) Revenue sharing agreements between wealth and asset management and branch banking are eliminated in the Condensed Consolidated Statements of Income.

*(b) Includes impairment charges of **$28** for branches and land. For more information refer to Note 7 and Note 22.*

*(c) Includes impairment charges of **$4** for operating lease equipment. For more information refer to Note 22.*

*(d) Includes bank premises and equipment of **$45** classified as held for sale. For more information, refer to Note 7.*

September 30, 2015 ($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	General Corporate and Other	Eliminations	Total
Net interest income	$ 413	395	62	33	(2)	-	901
Provision for (benefit from) loan and lease losses	195	37	11	-	(87)	-	156

Net interest income after provision for loan and lease losses		218	358	51	33	85	-	745
Total noninterest income		228[c]	197[b]	76	102	148	(38)[a]	713
Total noninterest expense		334	404	107	112	24	(38)	943
Income before income taxes		112	151	20	23	209	-	515
Applicable income tax expense (benefit)		(9)	53	7	9	74	-	134
Net income		121	98	13	14	135	-	381
Less: Net income attributable to noncontrolling interests		-	-	-	-	-	-	-
Net income attributable to Bancorp		121	98	13	14	135	-	381
Dividends on preferred stock		-	-	-	-	15	-	15
Net income available to common shareholders	$	121	98	13	14	120	-	366
Total goodwill	$	613	1,655	-	148	-	-	2,416
Total assets[e]	$	59,383	52,180	22,805	8,965	(1,450)[d]	-	141,883

(a) Revenue sharing agreements between wealth and asset management and branch banking are eliminated in the Condensed Consolidated Statements of Income.

(b) Includes impairment charges of $2 for branches and land. For more information, refer to Note 7 and Note 22.

(c) Includes impairment charges of $2 for operating lease equipment. For more information, refer to Note 22.

(d) Includes bank premises and equipment of $81 classified as held for sale. For more information, refer to Note 7.

(e) Upon adoption of ASU 2015-03 on January 1, 2016, the September 30, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $35 of debt issuance costs from other assets to long-term debt. For further information refer to Note 3.

Table of Contents

Fifth Third Bancorp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables present the results of operations and assets by business segment for the nine months ended:

September 30, 2016 ($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	General Corporate and Other	Eliminations	Total
Net interest income	**$ 1,367**	**1,272**	**185**	**127**	**(239)**	**-**	**2,712**
Provision for loan and lease losses	**119**	**104**	**32**	**1**	**33**	**-**	**289**
Net interest income after provision for loan and lease losses	**1,248**	**1,168**	**153**	**126**	**(272)**	**-**	**2,423**
Total noninterest income	**683** *(c)*	**566** *(b)*	**234**	**302**	**390**	**(100)** *(a)*	**2,075**
Total noninterest expense	**1,065**	**1,223**	**358**	**317**	**79**	**(100)**	**2,942**
Income before income taxes	**866**	**511**	**29**	**111**	**39**	**-**	**1,556**
Applicable income tax expense	**151**	**181**	**11**	**38**	**4**	**-**	**385**
Net income	**715**	**330**	**18**	**73**	**35**	**-**	**1,171**
Less: Net income attributable to noncontrolling interests	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**
Net income attributable to Bancorp	**715**	**330**	**18**	**73**	**39**	**-**	**1,175**
Dividends on preferred stock	**-**	**-**	**-**	**-**	**52**	**-**	**52**
Net income (loss) available to common shareholders	**$ 715**	**330**	**18**	**73**	**(13)**	**-**	**1,123**
Total goodwill	**$ 613**	**1,655**	**-**	**148**	**-**	**-**	**2,416**
Total assets	**$ 59,392**	**54,955**	**22,430**	**8,437**	**(1,935)** *(d)*	**-**	**143,279**

(a) Revenue sharing agreements between wealth and asset management and branch banking are eliminated in the Condensed Consolidated Statements of Income.

*(b) Includes impairment charges of **$31** for branches and land. For more information refer to Note 7 and Note 22.*

*(c) Includes impairment charges of **$9** for operating lease equipment. For more information refer to Note 22.*

*(d) Includes bank premises and equipment of **$45** classified as held for sale. For more information, refer to Note 7.*

September 30, 2015 ($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	General Corporate and Other	Eliminations	Total
Net interest income	$ 1,207	1,148	187	91	3	-	2,636
	271	116	33	3	(118)	-	305

Provision for loan and lease losses							
Net interest income after provision for loan and lease losses		936	1,032	154	88	121	-	2,331
Total noninterest income		630 [(c)]	468 [(b)]	327	315	274	(114)[(a)]	1,900
Total noninterest expense		1,031	1,207	325	342	23	(114)	2,814
Income before income taxes		535	293	156	61	372	-	1,417
Applicable income tax expense		43	103	56	21	144	-	367
Net income		492	190	100	40	228	-	1,050
Less: Net income attributable to noncontrolling interests		-	-	-	-	(6)	-	(6)
Net income attributable to Bancorp		492	190	100	40	234	-	1,056
Dividends on preferred stock		-	-	-	-	52	-	52
Net income available to common shareholders	$	492	190	100	40	182	-	1,004
Total goodwill	$	613	1,655	-	148	-	-	2,416
Total assets[(e)]	$	59,383	52,180	22,805	8,965	(1,450)[(d)]	-	141,883

(a) Revenue sharing agreements between wealth and asset management and branch banking are eliminated in the Condensed Consolidated Statements of Income.

(b) Includes impairment charges of $104 for branches and land. For more information refer to Note 7 and Note 22.

(c) Includes impairment charges of $36 for operating lease equipment. For more information refer to Note 22.

(d) Includes bank premises and equipment of $81 classified as held for sale. For more information, refer to Note 7.

(e) Upon adoption of ASU 2015-03 on January 1, 2016, the September 30, 2015 Condensed Consolidated Balance Sheet was adjusted to reflect the reclassification of $35 of debt issuance costs from other assets to long-term debt. For further information refer to Note 3.

Table of Contents

PART II. OTHER INFORMATION

Legal Proceedings (Item 1)

Refer to Note 17 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 for information regarding legal proceedings.

Risk Factors (Item 1A)

There have been no material changes made during the third quarter of 2016 to any of the risk factors as previously disclosed in the Bancorp s most recent annual report and subsequent periodic reports as filed with the SEC.

Unregistered Sales of Equity Securities and Use of Proceeds (Item 2)

Refer to the Capital Management section within Management s Discussion and Analysis in Part I, Item 2 for additional information regarding purchases and sales of equity securities by the Bancorp during the third quarter of 2016.

Shares Issued Under Certain Employee Benefit Plans

During the third quarter of 2016, the Bancorp determined that a number of shares of Fifth Third Bancorp common stock offered under our 401(k) Plan were previously inadvertently omitted from inclusion on the corresponding S-8 registration statements, that a number of securities granted under Fifth Third s Employee Stock Purchase Plan (ESPP) and incentive compensation plans were granted without appropriate prospectus delivery, and that deferred compensation obligations owed in respect of the Fifth Third Bancorp Nonqualified Deferred Compensation Plan may have been required to be registered. As a result, the Bancorp estimates that (i) approximately 1,997,737 unregistered shares were sold through the 401(k) Plan during the twelve months ended September 30, 2016, including approximately 273,338 shares sold during the third quarter of 2016; (ii) approximately 625,367 shares were purchased through the ESPP during the twelve months ended September 30, 2016, including approximately 150,475 shares purchased during the third quarter of 2016; (iii) approximately 5,530,829 restricted shares and 6,365,069 stock appreciation rights (SARs) were awarded under our incentive compensation plans during the twelve months ended September 30, 2016, including approximately 36,631 and 0, respectively, awarded during the third quarter of 2016; (iv) approximately 48,230 options and 3,235,555 SARs were exercised during the twelve months ended September 30, 2016, at a weighted average option exercise price (or, in the case of SARs, mean grant date price per share) of $13.85, including approximately 5,002 options and 1,455,052 SARs exercised during the third quarter of 2016; and (v) approximately $7,986,589 in aggregate deferrals were made under the Nonqualified Deferred Compensation Plan during the twelve months ended September 30, 2016, including approximately $1,039,476 in deferrals during the third quarter of 2016.

The Bancorp expects to file the required Forms S-8 and make a voluntary rescission offer to eligible plan participants during the fourth quarter of 2016 in order to remediate the registration and prospectus delivery defects. The Bancorp has also corrected the prospectus delivery defect in the intervening period subsequent to the third quarter of 2016. Based on the market price of Fifth Third Bancorp s common stock in October 2016, the Bancorp does not expect that the exercise of any applicable rescission rights will have a material impact on its results of operations, financial condition, or liquidity.

Defaults Upon Senior Securities (Item 3)

None.

Mine Safety Disclosures (Item 4)

Not applicable.

Other Information (Item 5)

None.

Exhibits (Item 6)

3.1	Amended Articles of Incorporation of Fifth Third Bancorp, as amended. Incorporated by reference to Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014.
3.2	Code of Regulations of Fifth Third Bancorp as Amended as of September 15, 2014. Incorporated by reference to Exhibit 3.2 to the Registrant s Annual Report on Form 10-K filed with the SEC on February 25, 2016.
4.1	Certain instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.
10.1	Supplemental Confirmation to Master Confirmation for accelerated share repurchase transaction dated August 2, 2016 between Fifth Third Bancorp and Wells Fargo Bank, National Association.* Master Confirmation is incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q filed with the SEC on May 11, 2015.
10.2	2017 Director Pay Program**
12.1	Computations of Consolidated Ratios of Earnings to Fixed Charges.
12.2	Computations of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
31(i)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
31(ii)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
32(i)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.

Table of Contents

32(ii)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Changes in Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to Condensed Consolidated Financial Statements tagged as blocks of text and in detail.

* *An application for confidential treatment for selected portions of this exhibit has been filed with the SEC.*

** *Denotes management contract or compensatory plan or arrangement.*

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Fifth Third Bancorp
Registrant

Date: November 9, 2016

/s/ Tayfun Tuzun
Tayfun Tuzun
Executive Vice President and
Chief Financial Officer