



**FIFTH THIRD BANCORP**

2016 | ANNUAL REPORT

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Fifth Third Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio.

**As of December 31, 2016, the Company had:**

**\$142B** IN ASSETS

**1,191** FULL-SERVICE BANKING CENTERS

**2,495** ATMs

**4** BUSINESS UNITS: Commercial Banking, Branch Banking, Consumer Lending And Wealth & Asset Management

**17.9%** INTEREST IN VANTIV HOLDING, LLC

**\$315B** IN ASSETS UNDER CARE\*

**\$31B** IN ASSETS UNDER MANAGEMENT\*

\*Assets under management and assets under care include trust and brokerage assets

**Fifth Third Bank was established in 1858.**

MEMBER FDIC.  EQUAL HOUSING LENDER. 

*Fifth Third works on things that **make a difference.***

*We hire great employees who are committed to supporting our customers and communities.*

**Greg D. Carmichael**

*President and Chief Executive Officer,  
Fifth Third Bancorp*



## DEAR SHAREHOLDERS:

Having recently completed my first full year at the helm as CEO, I can tell you that I am proud of our employees and what we accomplished in 2016. During the year, we achieved several important objectives. I believe that the steps we took in 2016 have positioned our Bank to deliver stronger and more stable financial results through business cycles.

I'm happy to report that 2016 was a strong year for our Bank. Guided by our Board of Directors and executive team, our employees worked hard to execute on our Vision to be the One Bank people most value and trust.

# CEO letter

Our Vision is rooted in a simple concept: **Keeping the customer at the center of everything we do.**

We are committed to acting in the best interests of our customers. It is a commitment that plays out every day in the products and services we offer and in the way we deliver them.

As stewards of your capital, we again were able to return a significant amount of capital back to you through dividends and share repurchases. We also were able to invest in areas of strategic importance for our bank.

We believe Fifth Third is well positioned, with significant scale across our businesses. Our Branch Banking and Consumer Lending footprint has a well-defined geography and is concentrated in the Midwest and the Southeast. Our Commercial business spans the United States and extends into Canada and London for the convenience of our customers.

We believe that in 2016 we laid the foundation necessary to achieve our longer term goals. There were three goals in particular on which we focused:

- 1 Strong financial performance through business cycles;**
- 2 Managing risk and striving for regulatory excellence; and**
- 3 Maintaining our brand value.**

## THE NORTHSTAR STRATEGY

In September, Fifth Third launched the NorthStar strategy, a three-year plan designed to achieve our Vision to be the One Bank people most value and trust. It is a set of initiatives that I believe will deliver strong and consistent returns through longer term economic cycles.

We expect our NorthStar strategy to help us achieve specific goals by the end of 2019. These goals include achieving a return on average tangible common equity of 12 to 14 percent, a return on average assets of 1.1 to 1.3 percent and an efficiency ratio below 60 percent.

## DRIVING INCREASED STABILITY

We have taken deliberate actions to shift the risk profile of our Bank. We are focused on driving stable performance through the cycle while targeting opportunities that fit our risk-return criteria. We are striving to improve the performance of our Bank without taking undue risks.

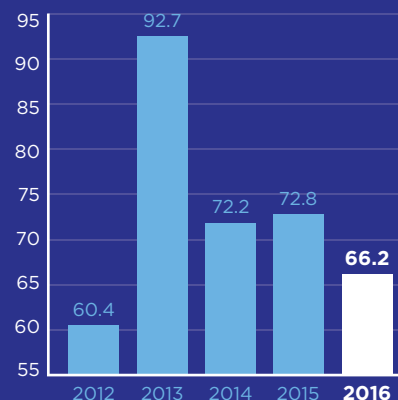
We believe that in 2016 our active risk management enabled us to limit our exposure to macroeconomic events such as lower energy prices and the immediate fallout from Brexit.

Our criticized asset ratio has continued to improve and is now at the lowest point since the third quarter of 2007. Furthermore, our 2016 Comprehensive Capital Analysis and Review (CCAR) results demonstrate that we would have remained well capitalized under a severely adverse economic scenario of similar magnitude to the financial crisis of 2008-2010. Our pre-provision net revenue (PPNR) to average assets ratio remained above the peer-group average even under a stressed scenario. Lastly, our results also indicated “less capital destruction” than the peer-group average in stressed scenarios, which again speaks to our favorable portfolio positioning.

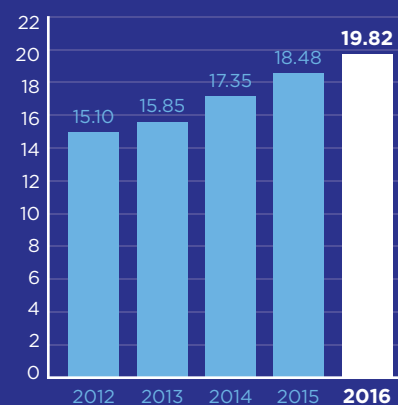
We also have taken other measures to maintain a strong balance sheet and liquidity. In 2016, we completely exercised our remaining position in the Vantiv warrant and reduced our overall ownership stake in Vantiv to 17.9 percent. Cumulatively, we

## 2016 BY THE NUMBERS

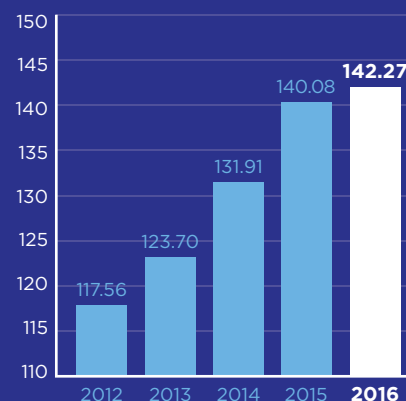
TOTAL PAYOUT RATIO (%)

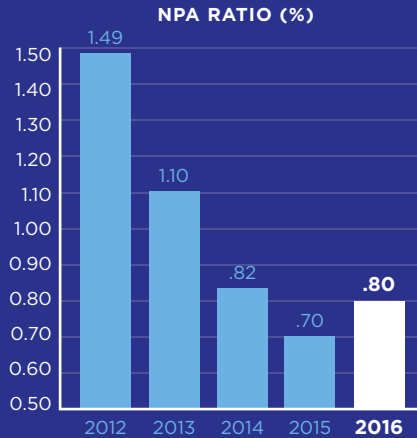


BOOK VALUE PER SHARE (\$)

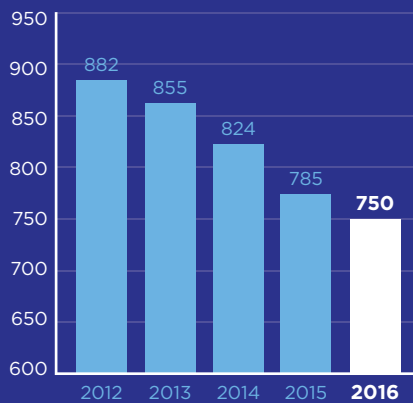


AVERAGE ASSETS (\$B)

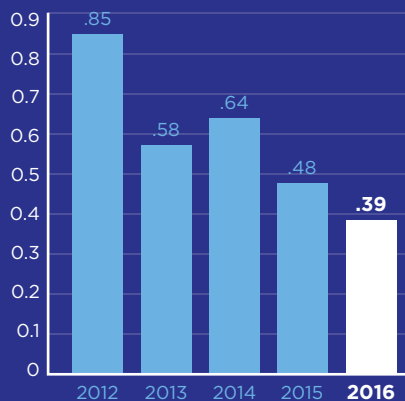




**COMMON SHARES OUTSTANDING (MM)**



**TOTAL NET CHARGE-OFFS (BPS)**



generated pre-tax gains of \$812 million from our ownership in the warrant. Exiting the warrant will also reduce volatility in our reported results.

Separately, we took steps to mitigate the risk to expected cash flows under a tax receivable agreement (TRA) with Vantiv. We had expected to receive \$725 million in cash over a 15-plus year period but decided to accelerate the monetization of those cash flows.

Our balance sheet also maintains a strong level of liquidity, with a Liquidity Coverage Ratio of 128 percent at the end of 2016.

### Optimizing Our Balance Sheet

We have sharpened our focus on prudent capital allocation and a measured balance of risk and return rather than emphasizing loan growth or increasing our risk appetite. To that end, we deliberately exited over \$3.5 billion dollars in commercial relationships that did not meet our risk and/or return criteria. While these actions created a headwind for loan growth in the near term, they were consistent with our focus on improving the long-term profitability and resiliency of our Bank. In the Consumer Bank, we decided to decrease indirect auto loan originations and redeploy capital to other more attractive businesses.

As we continue to optimize our balance sheet, we have three top priorities. First, we want to continue to make progress in positioning our loan portfolio for higher returns through the cycle. Second, we seek to manage interest rate risk exposure while maintaining an asset-sensitive position. Third, we want to maintain a healthy level of liquidity on our balance sheet.

As noted above, we also have a substantial ownership position in Vantiv. Our ownership stake is a potential source of additional capital and liquidity that currently is not recognized in our balance sheet. At the end of 2016, our ownership interest in Vantiv was recorded at a carrying value of \$414 million. The market valuation for those shares imply an after-tax gain of nearly \$1 billion at current tax rates.

## Committed to Expense Management

Although revenue growth is important, expense management creates important stability in a low-rate environment. We always have considered prudent expense control, like revenue growth, to be a part of the ongoing responsibilities of executive management. We have executed several expense initiatives during the course of the year that I expect to result in ongoing improvements to pre-tax income.

## OUR PEOPLE

We would not be able to accomplish any of our objectives without the effort and dedication of our employees. These employees embrace our service model, our commitment to community involvement and our focus on improving lives.

They understand that behind every customer account is a person with goals and dreams who is unique and deserving of our utmost attention.

In 2016, our team adapted to changes in leadership, technology and processes while demonstrating our Core Values of Integrity, Teamwork and Collaboration, Accountability and Respect and Inclusion. We invested in new leadership across our organization.

In September, **Jerry Burris** and **Eileen Mallesch** were appointed to our Board of Directors. Mr. Burris's background as CEO of Associated Materials and his 20 years of management experience with General Electric provide deep and broad management experience to the board. Ms. Mallesch is a CPA and served as the senior vice president and CFO for Nationwide Insurance



## VOLUNTARY EARLY RETIREMENT PROGRAM

Fifth Third conducted its first-ever voluntary early retirement program, executed in the first quarter of 2016. The offering enabled Fifth Third to further manage expenses and help fund strategic investments, while also creating a financial cushion for long-serving employees who chose to take advantage of the opportunity to retire early.



## CONTRACT RENEGOTIATIONS

We extended our servicing and referral agreement with Vantiv, Inc. by 5½ years. This new agreement will generate higher revenues and cost savings, designed to increase over time.

We also actively reviewed our vendor relationships to identify cost saving opportunities and other efficiencies. During 2016, we negotiated partner agreements with multiple IT and operations vendors.



and has more than 25 years of broad finance strategy experience in a variety of industries.

Former North Florida regional president

**Brian Lamb** was chosen to lead Fifth Third's newly created Corporate Responsibility and Reputation division. This division oversees Corporate Communications, Community and Economic Development, Inclusion and Diversity, and Ethics.

**Aravind Immaneni** joined as chief operations and technology officer, responsible for all aspects of technology and back-office operations. Mr. Immaneni has extensive experience in transforming businesses by reinventing operations, technology and processes.

**Sameer Gokhale** joined as head of investor relations and corporate performance measure-

ment. Mr. Gokhale brings a deep understanding of shareholder value creation to Fifth Third.

**Melissa Stevens** joined Fifth Third in the newly created position of chief digital officer and head of Omni-channel Banking, as we seek to continue to improve the customer experience.

We were proud that our Chief Administrative Officer **Teresa Tanner** was named to *American Banker's* list of Most Powerful Women in Banking. *American Banker* highlighted Ms. Tanner's role in reinventing the Bank's benefits offerings and her work within the community—especially the arts. The recognition also acknowledged her efforts in recruiting and developing talent, including the creation of the Women in Leadership program.

Our annual Employee Viewpoints Survey again showed that we have a highly engaged, highly



### BRANCH OPTIMIZATION

In our retail business, we completed a 105-branch reduction that included the exits of the Pittsburgh and St. Louis retail markets. These actions are expected to generate over \$60 million dollars in annual savings.

We also planned to close or consolidate an additional 42 branches and buildings as part of our ongoing review of customer preferences and our ability to best serve their needs. Changes in technology and customer behavior will continue to transform our branch network.



### ALTERNATIVE WORKSPACE STRATEGY

We are on a journey to create work spaces that inspire employees and encourage collaboration. Our new open-office environments will reduce both our need for physical workspace and our overhead expenses.

The new workspaces will include significantly greater technology that allows employees to be more mobile, accommodates 30 to 35 percent more employees and decreases underutilized space.

connected team at Fifth Third. It's a team that improved our communities in new and innovative ways over the course of the year.

## OUR COMMITMENT TO INCLUSION AND DIVERSITY

Fifth Third is deeply committed to inclusion and diversity in every aspect of our business. We believe that increased diversity is good for our Bank and the communities we serve. We continually evaluate diversity across a number of dimensions—from our employee base, to our community outreach efforts to the vendors we use in our supply chain. We are proud to have one of the most diverse Boards in the financial services sector.

We also are committed to supplier diversity. In 2016, Fifth Third increased expense allocations

for certified minority-owned businesses by 70 percent, awarding contracts to more than 350 diverse suppliers. We were honored to be recognized by the Ohio Minority Supplier Development Council as a corporation of the year.

## OUR COMMITMENT TO BUILDING COMMUNITIES

We firmly believe that when we build stronger communities, we build a stronger Bank.

I was pleased to announce a landmark \$30 billion Community Commitment on November 18, 2016. It was the largest community development plan initiated by a single regional bank in recent history, and it reflected strong collaboration with the National Community Reinvestment Coalition (NCRC), the leading organization in working with financial institutions to address community needs in banking services.



**Jerry W. Burris**  
*Retired President and CEO, Associated Materials Group, Inc.*

**Gary R. Heminger**  
*President, CEO and Chairman, Marathon Petroleum Corporation*

**Katherine B. Blackburn**  
*Executive Vice President, Cincinnati Bengals, Inc.*

**Nicholas K. Akins**  
*Chairman, President and CEO, American Electric Power Company*

**B. Evan Bayh III**  
*Partner, McGuire-Woods LLP*

**Jewell D. Hoover**  
*Retired Senior Official, Comptroller of the Currency*

**Marsha C. Williams**  
*Retired CFO, Orbitz Worldwide, Inc.*

The \$30 billion commitment in lending and investments is \$2.5 billion above the plan we announced earlier in the year. It also includes \$158 million in strategic impact initiatives such as financial services, branch openings and cooperative public policy for low- and moderate-income and high-minority communities.

“Banks are our neighborhoods’ best hope,” said John Taylor, president and CEO of the NCRC, at our joint press conference. It was a statement that made the entire Fifth Third team and me proud to be part of this industry.

## OUR COMMITMENT TO YOU

As shareholders of Fifth Third Bancorp, you also are shareholders in the legacy we are creating. We are continually working to fundamentally improve lives through financial solutions, financial security and financial empowerment.

As we look ahead to 2017, we are confident that we will build on this legacy while continuing to drive value for you, our shareholders.

I want to thank our Board of Directors, our senior leadership team and all of our employees for the skill, the passion and the commitment they demonstrate every day. Together, we are building a stronger, more sustainable Fifth Third for our customers, our communities, our shareholders and each other. ■

**Greg D. Carmichael**  
*President and Chief Executive Officer,  
 Fifth Third Bancorp*



**Hendrik G. Meijer**  
*Co-Chairman,  
 CEO and Director,  
 Meijer, Inc.*

**Emerson L. Brumback**  
*Retired President and  
 COO, M&T Bank*

**Jorge L. Benitez**  
*Retired CEO,  
 North America,  
 Accenture*

**Michael B. McCallister**  
*Retired Chairman  
 and CEO,  
 Humana Inc.*

**Eileen A. Mallesch**  
*Retired CFO, Nationwide  
 Property & Casualty  
 Segment, Nationwide  
 Mutual Insurance Company*

**Greg D. Carmichael**  
*President and CEO,  
 Fifth Third Bancorp*

## THE NORTHSTAR STRATEGY

In September, Fifth Third launched the **NorthStar strategy**, a three-year plan designed to achieve our Vision to be the One Bank people most value and trust and deliver strong, consistent returns through longer term economic cycles.

The strategy is designed to impact every line of business, every employee and, most importantly, every customer.

# NorthStar Strategy

## WE ARE FOCUSED ON:

**Building a differentiated brand and corporate reputation** by improving the customer experience, increasing brand equity and delivering on the Bank's \$30 billion Community Commitment.

**Delivering a better, more differentiated value proposition** by investing in our sales and service channels and expanding on our products, solutions and expertise.

**Generating** return on average tangible common equity of 12 to 14 percent, return on average assets of 1.1 to 1.3 percent and an efficiency ratio below 60 percent by the end of 2019.

**Achieving risk and operational excellence.**

Fifth Third has disclosed participation in a number of alliances to achieve these goals, including GreenSky, ApplePie Capital, AvidXchange, Zelle and Transactis. ■

## NORTHSTAR FINANCIAL PERFORMANCE TARGETS (TO BE ACHIEVED BY THE END OF 2019)

**12-14%**

RETURN ON  
AVERAGE TANGIBLE  
COMMON EQUITY

**1.1-1.3%**

RETURN ON  
AVERAGE  
ASSETS

**<60%**

EFFICIENCY  
RATIO\*

\*Without the benefit of higher interest rates, corporate tax changes or a reduced regulatory environment.

# 2016 financial review

Full-year 2016 net income available to common shareholders of \$1.5 billion decreased 9 percent from 2015. Earnings per diluted common share of \$1.93 decreased 4 percent from 2015. Results for both years were significantly impacted by Vantiv-related transactions.

In 2016, after-tax Vantiv net gains were approximately \$295 million (approximately \$0.38 per share), compared with after-tax net gains of \$519 million (approximately \$0.64 per share) in 2015. Fifth Third will continue to evaluate further reductions in its ownership stake in Vantiv in a thoughtful and prudent manner.

**In 2016, Fifth Third maintained a disciplined approach and continued to focus on businesses that met its desired risk-return requirements.**

In 2016, average loans and leases increased 1 percent to \$94.3 billion, with growth in residential mortgages, commercial and industrial loans and commercial construction loans. Growth in these areas partially was offset by a decline in automobile loans.

In 2015, Fifth Third made a strategic decision to reduce auto loan originations while focusing on other businesses that generated more attractive returns. Average securities and short-term investments increased \$1.7 billion as Fifth Third continued to take a balanced approach to liquidity and interest rate risk management.

**Fifth Third also continued to grow high-value, low-cost transaction deposits in 2016.** Transaction deposits increased by 1 percent, even though the Bank's exits from the St. Louis and Pittsburgh markets had a negative impact on growth. Fifth Third's deposit franchise will remain an important driver of profitable balance sheet growth.

Net interest income increased 2 percent, partially reflecting growth in interest-earning assets. During the year, Fifth Third maintained a disciplined approach to pricing and also benefited from higher market interest rates. This was partially offset by lower securities yields.

In 2016, despite low interest rates for most of the year, Fifth Third's net interest margin was flat compared to 2015. At year-end, Fifth Third's modified liquidity coverage ratio (LCR) was 128 percent, up from 116 percent in 2015.

Noninterest income decreased 10 percent from 2015, primarily reflecting lower Vantiv-related gains. Fifth Third reported a 13 percent increase in corporate banking revenue driven by an increase in syndication fees. Additionally, fee income growth reflected strong card and processing revenue, offset by lower Wealth & Asset Management fees and lower mortgage banking net revenue.

**Throughout the year, Fifth Third maintained a focus on controlling expenses while continuing to execute on strategic priorities.**

Total noninterest expense increased 3 percent from 2015, primarily reflecting higher compensation expense as the Bank added personnel in Risk Management, Compliance and Information Technology. This was partially offset by lower occupancy expense, as well as reduced card and processing expense due to key vendor contract renegotiations.

Credit trends reflected the benign environment as well as Fifth Third's continued focus on positioning its balance sheet to outperform through business cycles. Full-year net charge-offs decreased 19 percent, as commercial net-charge offs hit a 15-year low and the Bank's criticized assets decreased 21 percent. Fifth Third's reserve coverage ratios remain solid at 1.36 percent of portfolio loans and leases and 190 percent of nonperforming loans and leases.

**Fifth Third Bank has positive momentum in many of its core businesses and is executing on its strategic priorities under NorthStar. As we execute on these priorities, we expect to deliver higher returns for shareholders while positioning the Bank for long-term success. ■**

# branch banking

A strong Retail Bank is critical to the future of Fifth Third. The Bank offers **a complete suite of Retail Banking products and services.** Its localized, high-touch service model is primarily concentrated in the Midwest and Southeast.

In addition to providing services through the traditional branch channel, Fifth Third continues to adapt to evolving customer preferences. While physical infrastructure remains important, Fifth Third seeks to provide customers with a superior, integrated experience across branch and mobile banking channels. Fifth Third has been leveraging technology to help provide superior customer service while reducing its branch count. The Bank lowered its planned branch count by approximately 12 percent over the past eighteen months. Some of the savings generated by these closures will be reinvested in its digital capabilities. Fifth Third will continue to evaluate its branch network on an ongoing basis.

The Bank also is investing in other initiatives. For example, Fifth Third Bank is in the process of streamlining its existing operations by fully digitizing nearly 700 million paper-based transactions annually. Fifth Third also recently announced that it has joined Zelle's person-to-person (P2P) payment network. This will be a critical component to retaining client engagement with Fifth Third's mobile application.

In its Consumer Credit Card business, Fifth Third remains focused on improving customer acquisition and increasing cardholder activation. To that end, it recently launched two products—Truly Simple and TRIO—with a more attractive customer value

proposition. These new card products are expected to improve the Bank's ability to compete for and win customers. Fifth Third also is investing in analytical capabilities to enhance risk-adjusted returns while growing loan balances.

Customer expectations for simple and intuitive access, transparency and speed continue to rise. Accordingly, Fifth Third is prioritizing its investments to align with the demographic and technological changes that are reshaping these markets. The traditional lines across retail delivery channels are no longer well defined, and Fifth Third's investments will continue to integrate seamlessly across every customer touch point into a universal sales, service and marketing strategy. Fifth Third's efforts to more effectively integrate digital technology in this rapidly evolving environment will create significant shareholder value. ■



## 2016 HIGHLIGHTS

**\$2.4B**

TOTAL  
REVENUE

**\$15.4B**

AVERAGE  
LOANS

**\$52.9B**

AVERAGE  
CORE  
DEPOSITS

**1.8M**

ONLINE  
BANKING  
CUSTOMERS

**1,191**

FULL-SERVICE  
BANKING  
CENTERS

# consumer lending

Fifth Third knows that consumers value the security of being able to access a line of credit when needed. The Bank's Consumer Lending division offers **competitive rates and a variety of products** to help customers reach their goals, whether short or long term.

Fifth Third's auto business is an important component of Consumer Lending; however, the Bank has deliberately lowered origination targets to focus on improving risk-adjusted returns throughout the year. Despite the lowered targets, Fifth Third remains one of the largest bank originators of indirect auto loans in the country, and continues to value the relationships with an extensive dealer network across its 44-state indirect auto footprint.



The mortgage business is one of the most cyclical of Fifth Third's businesses, and Fifth Third has managed well through the most recent cycle. Fifth Third has a business model that can be adjusted quickly in response to the changing environment. Fifth Third is primarily an in-footprint retail lender, though it also has a broad-footprint direct channel and purchases loans through a correspondent channel. Mortgage often opens the door to deeper, more profitable relationships that holistically serve the needs of customers.

To fuel additional growth and improve the customer experience, Fifth Third recently announced an agreement with Black Knight Financial Services to consolidate its existing mortgage loan platforms. This is expected to simplify the mortgage origination process for both clients and employees, designed to give Fifth Third a competitive advantage in the marketplace.

Regardless of whether credit customers come to the Bank through auto, mortgage or other Consumer Lending areas, Fifth Third continues to work to simplify the process of obtaining a loan. Fifth Third works proactively with borrowers to explore options that make sense within their current financial situation. Fifth Third maintains a commitment to demonstrating better listening and better problem solving. This helps the Bank earn the trust that creates value—value that lasts well beyond the life of the loan. ■

## 2016 HIGHLIGHTS

**\$551M**

TOTAL  
REVENUE

**\$21.1B**

AVERAGE  
LOANS

**\$69B**

MORTGAGE  
SERVICING  
PORTFOLIO

**6,817**

DEALER  
INDIRECT AUTO  
LENDING  
NETWORK

# commercial banking

Fifth Third's Commercial Bank is focused on **creating strategic partnerships with business, government and professional customers** through customized financial solutions.

With its focused segmentation strategy and broad client solution capabilities, the Commercial Bank targets clients from \$20 million in annual revenue to some of the world's largest companies.

The comprehensive and competitive offerings of Fifth Third's Commercial Bank span from traditional lending and depository products to global cash management, foreign exchange and international trade finance, derivatives and capital markets services, asset-based lending, leveraged lending, real estate finance, public finance, commercial leasing and lending and syndicated finance.

This wide range of services and experience allows the Commercial Bank to address client needs and provide capital and financing solutions to be a strategic resource in our customers' financial success. Fifth Third is benefiting from these strong and enduring relationships. The Bank's disciplined client selection aims to improve the risk-adjusted returns in the business.

Fifth Third's commitment to business lending remains strong. In 2016, the Commercial Bank produced 43 percent of Bancorp revenue and accounted for more than half of loan balances. This track record of success and ability to develop new capabilities sets Fifth Third apart from the competition.

The Bank has built specialized verticals and significantly strengthened its credit underwriting by adding experienced talent in these areas. Fifth Third is committed to helping businesses adapt to the new economy, drive innovation and growth and access the working capital needed to meet their goals. ■



## 2016 HIGHLIGHTS

**\$2.7B**

TOTAL  
REVENUE

**\$54.6B**

AVERAGE  
LOANS

**\$36.5B**

AVERAGE  
CORE  
DEPOSITS

**~14,000**

CLIENTS



# wealth & asset management

Wealth & Asset Management is comprised of **four distinct businesses tailored to the unique needs of its customers**. Fifth Third puts more than 100 years of experience to work to help individuals, families, businesses and institutional clients protect, grow and manage their wealth.

**Fifth Third Private Bank** serves the complex financial needs of the Bank's clients with teams of professionals dedicated to helping clients achieve their unique financial goals.

**Fifth Third Securities** helps individuals and families at every stage of their lives, offering retirement,

investment and education planning, managed money, annuities and transactional brokerage services.

**ClearArc Capital, Inc.** provides asset management services to institutional clients.

**Fifth Third Institutional Services** provides consulting, investment and recordkeeping services for corporations, financial institutions, foundations, endowments and not-for-profit organizations. Products include retirement plans, endowment management, planned giving and global and domestic custody services.

Fifth Third's Wealth & Asset Management business has grown through successful partnerships with clients that assist them in achieving their financial objectives. Fifth Third works to understand where clients stand today and where they want to go. Next, the Bank focuses on collaborating with clients and their outside advisors to build a custom plan for each client. Finally, the Bank works with its clients to achieve those goals. The exclusive Life360 platform reflects Fifth Third's continued investment in a comprehensive digital strategy. The platform provides a holistic view, convenience and control for clients as they work toward their financial goals with confidence.

By providing holistic advice, guidance and service, and focusing on the needs of clients, Wealth & Asset Management is poised to continue to deliver growth to Fifth Third shareholders. ■



## 2016 HIGHLIGHTS

**\$567M**

TOTAL  
REVENUE

**\$3.1B**

AVERAGE  
CORE  
LOANS

**\$8.6B**

AVERAGE  
CORE  
DEPOSITS

**\$31B**

ASSETS UNDER  
MANAGEMENT\*

**\$315B**

ASSETS UNDER  
CARE\*

\* Assets under management and assets under care include trust and brokerage assets.

# community commitment

**Fifth Third will lend or invest \$30 billion to low- and moderate-income (LMI) borrowers and in LMI communities over a five-year period from 2016 to 2020.**

This agreement between Fifth Third and the National Community Reinvestment Coalition (NCRC) was signed by 145 NCRC member community organizations and announced publicly on November 18, 2016.

#### **MORTGAGE LENDING**

**Community Commitment:**

**\$11 billion over five years**

Fifth Third is committing \$11 billion to LMI borrowers and LMI neighborhoods. The commitment includes a specific target for home purchase loans.

#### **SMALL BUSINESS LENDING**

**Community Commitment:**

**\$10 billion over five years**

Fifth Third has a lending goal of \$10 billion for small businesses.

## COMMUNITY DEVELOPMENT LENDING AND INVESTMENTS (CDLI)

### Community Commitment:

## \$9 billion over five years

Fifth Third committed to \$9 billion in CDLI over five years. The Bank is evaluating expanding CDLI activities to include affordable housing, pre-development loans, non-tax-credit-related projects to assist with access to affordable housing, and support for economic development projects that promote job creation and retention for LMI individuals and neighborhoods.

## FIFTH THIRD IMPACT PROGRAMMING

### Community Commitment:

## \$154.8 million over five years

### Philanthropy

Fifth Third will strengthen communities through philanthropic donations and impactful community sponsorships. Charitable giving will include supporting organizations with resources for capacity building, workforce training and assistance for older adults.

### Housing-related Investments

Fifth Third will help address the gap for consumers who need down payment assistance, support housing counseling and financial literacy programs, and fund housing loan pools for home repairs and gap financing to support neighborhood revitalization.

### Small Business-related Investments

Fifth Third will help fund technical assistance programs for small business development and growth and support the ecosystem for small business lending.

### Branch and Staff Commitments

Fifth Third will seek to increase access to banking services in LMI and/or high minority communities by opening additional branches in those neighborhoods. The Bank will support this activity and improve delivery of these services by expanding CRA staffing in mortgage lending and small business lending.

### Inclusion and Diversity

Fifth Third's plan supports the Bank's commitment to ensure that its human capital is inclusive and diverse. The Bank will increase its efforts to support diverse suppliers: minority-owned, women-owned and veteran-owned businesses.

### Fifth Third L.I.F.E. Financial Education

Fifth Third will deliver its Fifth Third L.I.F.E. (Lives Improved through Financial Empowerment) programs, which strive to reach consumers at every age and stage of life through foundational financial education. Fifth Third's L.I.F.E. programs include its Financial Empowerment Mobiles, or eBuses, which deliver financial education, job training, tax preparation assistance and other help directly to low- and moderate-income communities in partnership with local community organizations.

Fifth Third Bank will form a national community advisory forum that will review and monitor the progress of the agreement, as well as statewide advisory forums that will provide input to Fifth Third for addressing community needs. Additionally, in partnership with NCRC, Fifth Third will conduct annual local community engagement meetings in all its major markets. ■

# corporate social responsibility

For a dozen years now, Fifth Third Bank has been working—often quietly and behind the scenes—to provide **free financial education.**

**The Bank has educated more than 1.25 million people,** from fifth-graders to high school students to adults, from low-income and underserved individuals to groups of clients' employees and retirees.

Along the way, Fifth Third employees have seen firsthand the transformative power of financial education. The Bank has letters from parents and their teenagers talking about the impact of their financial education courses. Younger kids get excited about saving and budgeting, others fortify their financial confidence through eBus visits in neighborhoods; and the Bank's business clients have been provided with class after class to help them and their employees learn about home ownership, saving for college, protecting their identity and planning for retirement.

Fifth Third employees, including President and CEO Greg Carmichael, taught classes about budgeting and saving, identity protection and home ownership preparation.

A survey commissioned by Fifth Third demonstrated that the need for this type of education is real, is deep and is pressing.

## FINANCIAL EMPOWERMENT

One of the most obvious and long-lasting ways Fifth Third improves lives is through its commitment to



financial empowerment. The Bank's L.I.F.E. (Lives Improved through Financial Empowerment) programs are the way it delivers financial education to people at all ages and stages of life.

In 2016, Fifth Third educated 14,000 fifth-grade students through the Fifth Third Bank Young Bankers Club®. The Young Bankers Club, a program developed by Fifth Third, teaches money management basics to elementary school students. The goal of Young Bankers Club is to enable students to connect the importance of education to their future and to understand what money is and the difference between needs and wants.

Fifth Third celebrated a major milestone in 2016 with the education of high school students. Its sponsorship of a top-notch financial education program in high schools over the past six years has enabled the education of approximately 1 million students.

The Fifth Third Financial Empowerment Mobiles, or eBuses, also hit the road again in 2016, visiting low- and moderate-income communities. There were



17,600 visitors to eBus tour stops, where Fifth Third professionals offered credit checks, tax preparation, job search and training as well as access to financial services.

2016 marked the first concentrated effort to take Fifth Third Bank Empower U® into the communities. This intensive outreach aims to teach individuals throughout the Bank's 10-state footprint. Fifth Third taught over 150 classes—all of them free. They were brought to life thanks to 70 community nonprofit organizations working in close collaboration with Fifth Third.

### COMMUNITY DEVELOPMENT

The Fifth Third Community Development Corporation (CDC) invested \$175.5 million in affordable housing, revitalization, historic preservation and small business projects throughout the Bank's footprint.

Fifth Third, its regions and the Fifth Third Foundation made \$19.3 million in grants for community support in 2016. The Bank's support focused on the areas of

community development and affordable housing, small business technical assistance, and other health and human services and arts support.

Fifth Third welcomed incoming classes to its Project SEARCH program in the fall of 2016. Project SEARCH is a school-to-work transition program for people with physical or developmental disabilities. For 12 years, Fifth Third has operated three programs, two in Cincinnati, Ohio, and one in Grand Rapids, Michigan. Over that time, it has trained 236 individuals, 30 of whom still are employees of the Bank.

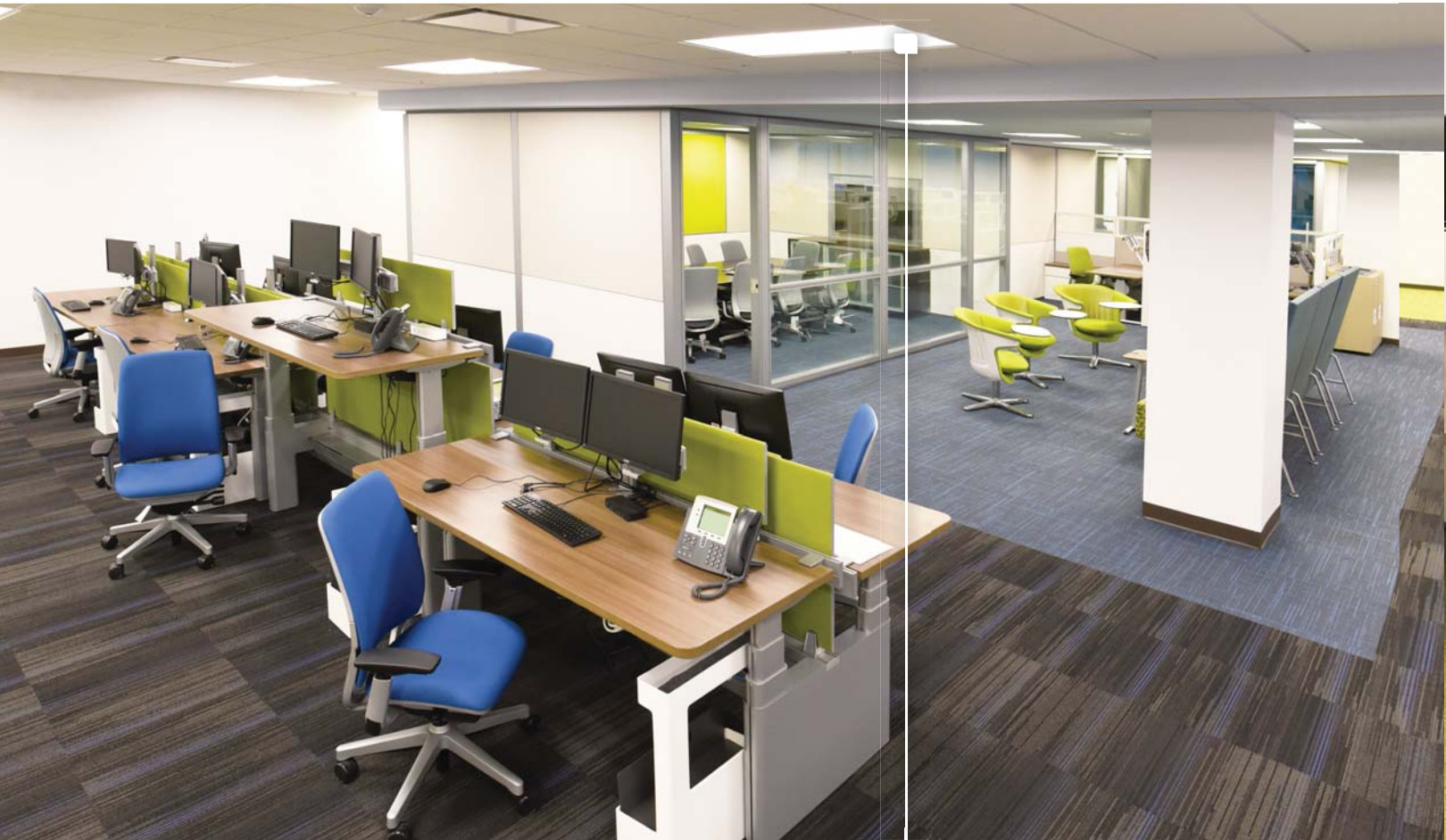
In 2016, Fifth Third and its employees donated \$7 million to United Way. The Bank also provided more than 630,000 meals to the hungry during its annual drive in May.

### SUSTAINABILITY

Fifth Third is committed to continually seeking ways to reduce its carbon footprint and take care of the natural environment. In 2016, it invested \$4 million with HP Energy for a major LED lighting retrofit in some of its facilities. The project, which was completed in December 2016, was expected to reduce lighting-related energy use by 50 percent at 136 bank facilities in Ohio, Kentucky, Indiana and North Carolina. The corresponding energy savings were 6.3 million kilowatt hours per year, enough to provide 578 homes with electricity for one year. The investment with HP Energy was made after a successful pilot program in Florida in January 2016. ■



# community spotlight



**Sustainability is very important to Fifth Third** because it's good for the environment and it's a good business practice.

Fifth Third undertook two large-scale projects this year to decrease its footprint, energy consumption and costs: converting to LED lighting and transforming office space to be more collaborative.

## LED LIGHTING

Fifth Third's LED lighting installation project, one of the biggest in the financial industry, will reduce lighting-related energy consumption by 50 percent while cutting energy costs by \$650,000 a year.

Fifth Third upgraded the lighting at its branches in Ohio, Kentucky, Indiana and North Carolina from fluorescent bulbs to LED lighting. It also transformed the lighting in five of its Cincinnati office buildings.

"This is a great way to save money, create a better work environment for our employees and become more sustainable," said Scott Hassell, Fifth Third's director of Environmental Affairs. Fifth Third took advantage of incentives from its energy provider to make the conversion and will consider taking the LED lighting initiative to other locations.



## OFFICE RENOVATIONS

At the same time, Fifth Third began a large office renovation to move to an open office concept to decrease its footprint and create a collaborative and more creative space for its employees.

The cost of open office renovations is approximately 16 percent higher than traditional renovations, but one benefit is the new spaces include more robust technology that allows employees to be more mobile, accommodates 30 to 35 percent more employees, and decreases underutilized space. It also will result in lower costs and faster organization changes since the Bank will move people and not walls.

“This is part of the new Fifth Third,” said Fifth Third Bank President and CEO Greg Carmichael. “We want to encourage more innovation and

collaboration. We want to create the best work environment for our teams to provide the best solutions for our customers.” ■

*We're trying to create an environment that **inspires** people. We can get more efficiency out of our real estate this way, while still contributing to **innovation**.*

**Donna Burnell**

*Managing director, Fifth Third Enterprise Workplace Services*

# consumer spotlight

One of the Consumer Bank's main areas of focus is helping the underserved in our communities.

## DOWN PAYMENT ASSISTANCE PROGRAM

As part of its response to the CFPB's call to serve the underserved, Fifth Third Bank wanted to help low-income families purchase homes. One of the biggest obstacles for first-time homebuyers is the down payment.

"We want to help build strong communities," said Chad Borton, head of the Consumer Bank for Fifth Third Bancorp. "We know that making homes affordable is one of the best ways we can help improve our neighborhoods."

So Fifth Third created the Down Payment Assistance Program, offering 3 percent of the purchase price in down payment assistance, up to \$3,600, for low-income borrowers or those purchasing in a designated low-income area and financing their loan through Fifth Third. Fifth Third's program also can be combined with state and local programs to help consumers take advantage of free money for their down payments.

*We want to help our customers become financially empowered.*

*Building strong consumers helps build strong communities.*

**Chad Borton**  
Head of Consumer Bank for Fifth Third

"I didn't think I could afford a house," said Gustavo Benedetti, a high school Spanish teacher in Cincinnati. He recently used one of the Bank's assistance programs to buy his three-bedroom home. "Fifth Third made sure my monthly payments are affordable. They didn't just get me a mortgage; they made sure I got in the right home."


## EXPRESS BANKING

When the Consumer Financial Protection Bureau (CFPB) urged the nation's top banks to do more for the underserved, Fifth Third Bank already was ahead of the pack. The Bank had recently introduced Express Banking, a service created for the unbanked and underbanked—people who typically don't have bank accounts, relying instead on non-bank alternatives such as check cashing centers.

Unlike some traditional bank accounts, Express Banking provides a way for people to manage their money with no monthly service charges, balance requirements or overdraft fees. Meeting a need in the marketplace, Express Banking quickly attracted customers. More than half of new Express Banking customers also were new to Fifth Third Bank. ■

**Fifth Third**  
**express**  
BANKING<sup>SM</sup>



A man with dark hair, wearing a blue and white plaid shirt and tan pants, is sitting in a yellow plastic chair outdoors. He is smiling and looking towards the camera. The background is a lush green lawn with trees. A quote is overlaid on the left side of the image.

*I didn't think I could afford a house. Fifth Third made sure my monthly payments are affordable. They didn't just get me a mortgage; they made sure I got in the right home.*

**Gustavo Benedetti**

*High school Spanish teacher and Fifth Third Down Payment Assistance Program customer*

# commercial spotlight

After several generations of family ownership, Flash Foods turned to Fifth Third's Capital Markets team when it considered selling its successful chain of convenience stores.

*We are delivering on our commitment to **bring unique and differentiated capital markets capabilities to our middle-market clients and prospects**—and our customers are rewarding us by giving us not only **their business, but also their trust.***

**Bob Marcus**  
Co-head of Fifth Third Capital Markets

It wasn't simply valuation the Jones family, who had owned Flash Foods since 1952, were seeking. It also was finding the right cultural fit for the company's employees and its legacy to thrive under new ownership.

Fifth Third understood the Jones family's needs, and sought the right buyer that would utilize Flash Food's geographic dominance to help grow its expanded business.

Fifth Third found that CST Brands Inc., a Texas-based convenience store chain, was the right fit. The sale offered advancement for Flash Foods' employees and increased distribution capabilities for CST Brands. Fifth Third served as the exclusive financial advisor to Flash Foods on their \$425 million sale to CST Brands.

"The Flash Foods transaction is representative of the consultative and strategic approach we take with our clients," explained Bob Marcus, co-head of Fifth Third Capital Markets. "Our bankers go beyond the transaction at hand to help our clients evaluate all strategic alternatives, determining the right path based on market conditions and stakeholder objectives."

While the Fifth Third Capital Markets team is filled with veterans of large firms and boutique investment banks, the offering from Fifth Third brings a new capability to Bank customers and prospects. The transaction was not just a strong success for our client, but has established Fifth Third as a serious merger-and-acquisition player with middle-market companies looking to sell or acquire. The Flash Foods transaction illustrated clearly that Fifth Third could deliver strong value to our clients with a customized and client-focused process.

In the words of Jimmy Jones, the outgoing CEO of Flash Foods, "Fifth Third was our guide and friend throughout the unfamiliar, complex and emotional process of selling my family's life's work. They understood the things that were uniquely important to my family and were just as comfortable walking away from an offer, even a very lucrative one, that didn't meet those important criteria." ■



*Jimmy Jones*  
*CEO of Flash Foods*

***Fifth Third was our guide and friend throughout the complex, unfamiliar and emotional process of selling my family's life's work.***

***They understood the things that were uniquely important to my family.***

# wealth & asset management spotlight



Fifth Third Private Bank launched the **Life360 digital platform** to help simplify financial complexity for clients, creating one place for clients and their advisors to see updated assets and liabilities, accounts and net worth daily.

Too often, advisors—from inside and outside of the Bank—don't see our clients' full financial picture. They all need to work together to reach the financial goals that are most important to clients, but each may hold only one piece of the financial picture. So Fifth Third created the Life360 digital program.

The Life360 platform is based on a 360-degree view of each client. This includes a picture of the client's financial past, present and future, along with personal, financial and professional goals.

The program allows clients to access all accounts on one screen, combining statements from all providers, updates on investments and the ability to track progress against plans. The tool allows customers to share access to their Life360 vault with multiple financial advisors such as financial planners, accountants and lawyers to ensure they're getting informed, collaborative guidance on their financial goals. Family members and beneficiaries can be given permission to ensure important information is accessible in the event of a health emergency or death.

In the first few months, hundreds of clients signed on to the new digital experience, representing some \$7 billion of client assets, and clients cite Life360 as a deciding factor when choosing the Bank. One popular aspect of Life360 is a portal is called "The Vault," akin to a virtual safety deposit box. Clients put information there and share it with family and their advisory teams. This can include wills and photos of items to pass down to their children or grandchildren. ■



*Life360 allows us to help clients meet their needs, collaborating with them to **identify their dreams and goals**—such as saving for college and retirement while factoring in projected investment returns—and working together to **build a plan to reach and exceed their goals.***

**Phil McHugh**

*Head of Wealth & Asset Management*





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### 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," "estimate," "forecast," "projected," "intends to," or may include other similar words or phrases such as "believes," "plans," "trend," "objective," "continue," "remain," or similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "can," 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 the Risk Factors section in Item 1A in this Annual Report on Form 10-K. 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) changes in customer preferences or information technology systems; (12) effects of critical accounting policies and judgments; (13) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (14) 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; (15) ability to maintain favorable ratings from rating agencies; (16) failure of models or risk management systems or controls; (17) fluctuation of Fifth Third's stock price; (18) ability to attract and retain key personnel; (19) ability to receive dividends from its subsidiaries; (20) potentially dilutive effect of future acquisitions on current shareholders' ownership of Fifth Third; (21) declines in the value of Fifth Third's goodwill or other intangible assets; (22) effects of accounting or financial results of one or more acquired entities; (23) difficulties from Fifth Third's investment in, relationship with, and nature of the operations of Vantiv Holding, LLC; (24) loss of income from any sale or potential sale of businesses (25) difficulties in separating the operations of any branches or other assets divested; (26) losses or adverse impacts on the carrying values of branches and long-lived assets in connection with their sales or anticipated sales; (27) inability to achieve expected benefits from branch consolidations and planned sales within desired timeframes, if at all; (28) ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; and (29) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity.

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 Consolidated Financial Statements and the Notes to Consolidated Financial Statements.

<p><b>ALCO:</b> Asset Liability Management Committee  <b>ALLL:</b> Allowance for Loan and Lease Losses  <b>AOI:</b> Accumulated Other Comprehensive Income  <b>ARM:</b> Adjustable Rate Mortgage  <b>ASF:</b> Available Stable Funding  <b>ASU:</b> Accounting Standards Update  <b>ATM:</b> Automated Teller Machine  <b>BCBS:</b> Basel Committee on Banking Supervision  <b>BHC:</b> Bank Holding Company  <b>BHCA:</b> Bank Holding Company Act  <b>BOLI:</b> Bank Owned Life Insurance  <b>BPO:</b> Broker Price Opinion  <b>bps:</b> Basis Points  <b>CCAR:</b> Comprehensive Capital Analysis and Review  <b>CDC:</b> Fifth Third Community Development Corporation  <b>CET1:</b> Common Equity Tier 1  <b>CFE:</b> Collateralized Financing Entity  <b>CFPB:</b> United States Consumer Financial Protection Bureau  <b>CFTC:</b> Commodity Futures Trading Commission  <b>C&amp;I:</b> Commercial and Industrial  <b>CRA:</b> Community Reinvestment Act  <b>DCF:</b> Discounted Cash Flow  <b>DFA:</b> Dodd-Frank Wall Street Reform and Consumer Protection Act  <b>DIF:</b> Deposit Insurance Fund  <b>DTCC:</b> Depository Trust &amp; Clearing Corporation  <b>ERISA:</b> Employee Retirement Income Security Act  <b>ERM:</b> Enterprise Risk Management  <b>ERMC:</b> Enterprise Risk Management Committee  <b>EVE:</b> Economic Value of Equity  <b>FASB:</b> Financial Accounting Standards Board  <b>FDIA:</b> Federal Deposit Insurance Act  <b>FDIC:</b> Federal Deposit Insurance Corporation  <b>FFIEC:</b> Federal Financial Institutions Examination Council  <b>FHA:</b> Federal Housing Administration  <b>FHLB:</b> Federal Home Loan Bank  <b>FHLMC:</b> Federal Home Loan Mortgage Corporation  <b>FICO:</b> Fair Isaac Corporation (credit rating)  <b>FINRA:</b> Financial Industry Regulatory Authority  <b>FNMA:</b> Federal National Mortgage Association  <b>FRB:</b> Federal Reserve Bank  <b>FSOC:</b> Financial Stability Oversight Council  <b>FTE:</b> Fully Taxable Equivalent  <b>FTP:</b> Funds Transfer Pricing  <b>FTS:</b> Fifth Third Securities  <b>GDP:</b> Gross Domestic Product  <b>GNMA:</b> Government National Mortgage Association  <b>GSE:</b> United States Government Sponsored Enterprise  <b>HAMP:</b> Home Affordable Modification Program</p>	<p><b>HARP:</b> Home Affordable Refinance Program  <b>HFS:</b> Held for Sale  <b>HQLA:</b> High-Quality Liquid Assets  <b>IPO:</b> Initial Public Offering  <b>IRC:</b> Internal Revenue Code  <b>IRLC:</b> Interest Rate Lock Commitment  <b>IRS:</b> Internal Revenue Service  <b>ISDA:</b> International Swaps and Derivatives Association, Inc.  <b>LCR:</b> Liquidity Coverage Ratio  <b>LIBOR:</b> London Interbank Offered Rate  <b>LLC:</b> Limited Liability Company  <b>LTV:</b> Loan-to-Value  <b>MD&amp;A:</b> Management's Discussion and Analysis of Financial Condition and Results of Operations  <b>MSA:</b> Metropolitan Statistical Area  <b>MSR:</b> Mortgage Servicing Right  <b>N/A:</b> Not Applicable  <b>NASDAQ:</b> National Association of Securities Dealers Automated Quotations  <b>NII:</b> Net Interest Income  <b>NM:</b> Not Meaningful  <b>NSFR:</b> Net Stable Funding Ratio  <b>OAS:</b> Option-Adjusted Spread  <b>OCC:</b> Office of the Comptroller of the Currency  <b>OCI:</b> Other Comprehensive Income  <b>OREO:</b> Other Real Estate Owned  <b>OTTI:</b> Other-Than-Temporary Impairment  <b>PCA:</b> Prompt Corrective Action  <b>PMI:</b> Private Mortgage Insurance  <b>PSA:</b> Performance Share Award  <b>RSA:</b> Restricted Stock Award  <b>RSF:</b> Required Stable Funding  <b>RSU:</b> Restricted Stock Unit  <b>SAR:</b> Stock Appreciation Right  <b>SBA:</b> Small Business Administration  <b>SEC:</b> United States Securities and Exchange Commission  <b>TBA:</b> To Be Announced  <b>TDR:</b> Troubled Debt Restructuring  <b>TILA:</b> Truth in Lending Act  <b>TRA:</b> Tax Receivable Agreement  <b>TruPS:</b> Trust Preferred Securities  <b>U.S.:</b> United States of America  <b>U.S. GAAP:</b> United States Generally Accepted Accounting Principles  <b>VA:</b> Department of Veterans Affairs  <b>VIE:</b> Variable Interest Entity  <b>VRDN:</b> Variable Rate Demand Note</p>
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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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 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 years ended December 31 (\$ in millions, except for per share data)	2016	2015	2014	2013	2012
<b>Income Statement Data</b>					
Net interest income (U.S. GAAP)	\$ 3,615	3,533	3,579	3,561	3,595
Net interest income (FTE) <sup>(a)(b)</sup>	3,640	3,554	3,600	3,581	3,613
Noninterest income	2,696	3,003	2,473	3,227	2,999
Total revenue <sup>(a)</sup>	6,336	6,557	6,073	6,808	6,612
Provision for loan and lease losses	343	396	315	229	303
Noninterest expense	3,903	3,775	3,709	3,961	4,081
Net income attributable to Bancorp	1,564	1,712	1,481	1,836	1,576
Net income available to common shareholders	1,489	1,637	1,414	1,799	1,541
<b>Common Share Data</b>					
Earnings per share - basic	\$ 1.95	2.03	1.68	2.05	1.69
Earnings per share - diluted	1.93	2.01	1.66	2.02	1.66
Cash dividends declared per common share	0.53	0.52	0.51	0.47	0.36
Book value per share	19.82	18.48	17.35	15.85	15.10
Market value per share	26.97	20.10	20.38	21.03	15.20
<b>Financial Ratios</b>					
Return on average assets	1.10%	1.22 <sup>(b)</sup>	1.12 <sup>(b)</sup>	1.48 <sup>(b)</sup>	1.34 <sup>(b)</sup>
Return on average common equity	9.8	11.3	10.0	13.1	11.6
Return on average tangible common equity <sup>(b)</sup>	11.6	13.5	12.2	16.0	14.3
Dividend payout ratio	27.2	25.6	30.3	22.9	21.3
Average total Bancorp shareholders' equity as a percent of average assets	11.67	11.33 <sup>(b)</sup>	11.59 <sup>(b)</sup>	11.56 <sup>(b)</sup>	11.65 <sup>(b)</sup>
Tangible common equity as a percent of tangible assets <sup>(b)(i)</sup>	8.87	8.59	8.43	8.63	8.83
Net interest margin <sup>(a)(b)</sup>	2.88	2.88	3.10	3.32	3.55
Efficiency <sup>(a)(b)</sup>	61.6	57.6	61.1	58.2	61.7
<b>Credit Quality</b>					
Net losses charged-off	\$ 362	446	575	501	704
Net losses charged-off as a percent of average portfolio loans and leases	0.39%	0.48	0.64	0.58	0.85
ALLL as a percent of portfolio loans and leases	1.36	1.37	1.47	1.79	2.16
Allowance for credit losses as a percent of portfolio loans and leases <sup>(c)</sup>	1.54	1.52	1.62	1.97	2.37
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO	0.80	0.70	0.82	1.10	1.49
<b>Average Balances</b>					
Loans and leases, including held for sale	\$ 94,320	93,339	91,127	89,093	84,822
Total securities and other short-term investments	31,965	30,245	24,866	18,861	16,814
Total assets	142,266	140,078 <sup>(b)</sup>	131,909 <sup>(b)</sup>	123,704 <sup>(b)</sup>	117,562 <sup>(b)</sup>
Transaction deposits <sup>(d)</sup>	95,371	95,244	89,715	82,915	78,116
Core deposits <sup>(e)</sup>	99,381	99,295	93,477	86,675	82,422
Wholesale funding <sup>(f)</sup>	21,813	20,210 <sup>(b)</sup>	19,154 <sup>(b)</sup>	17,769 <sup>(b)</sup>	16,926 <sup>(b)</sup>
Bancorp shareholders' equity	16,597	15,865	15,290	14,302	13,701
<b>Regulatory Capital and Liquidity Ratios</b>					
	<b>Basel III Transitional<sup>(g)</sup></b>		<b>Basel I<sup>(b)(k)</sup></b>		
CET1 capital	10.39%	9.82 <sup>(k)</sup>	N/A	N/A	N/A
Tier I risk-based capital	11.50	10.93 <sup>(k)</sup>	10.83	10.43	10.69
Total risk-based capital	15.02	14.13 <sup>(k)</sup>	14.33	14.17	14.47
Tier I leverage	9.90	9.54 <sup>(k)</sup>	9.66	9.73	10.15
CET1 capital (fully phased-in) <sup>(b)</sup>	10.29	9.72 <sup>(k)</sup>	N/A	N/A	N/A
Modified LCR	128	N/A	N/A	N/A	N/A

(a) Amounts presented on an FTE basis. The FTE adjustment for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 was \$25, \$21, \$21, \$20 and \$18, 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) These capital ratios were calculated under the Supervisory Agencies general risk-based capital rules (Basel I) which were in effect prior to January 1, 2015.

(i) Excludes unrealized gains and losses.

(j) Upon adoption of ASU 2015-03 on January 1, 2016, the Consolidated Balance Sheets for the years ended 2015, 2014, 2013 and 2012 were adjusted to reflect the reclassification of \$33, \$34, \$28 and \$52, respectively, of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 1 of the Notes to Consolidated Financial Statements.

(k) Ratios not restated for the adoption of the amended guidance of ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs." Refer to Note 1 of the Notes to Consolidated Financial Statements for further information.

## OVERVIEW

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. 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 annual report on Form 10-K. The abbreviations and acronyms identified therein are used throughout this MD&A, as well as the Consolidated Financial Statements and Notes to 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 year ended December 31, 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 United States. Revenue from foreign countries and external customers domiciled in foreign countries was immaterial to the Consolidated Financial Statements. Changes in interest rates, credit quality, economic trends and the capital markets are primary factors that drive the performance of the Bancorp. As discussed later in the Risk Management section of MD&A, risk identification, measurement, monitoring, control and reporting are important to the management of risk and to the financial performance and capital strength of the Bancorp.

Net interest income is the difference between interest income earned on assets such as loans, leases and securities, and interest expense incurred on liabilities such as deposits, short-term borrowings and long-term debt. Net interest income is affected by the general level of interest rates, the relative level of short-term and long-term interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Generally, the rates of interest the Bancorp earns on its assets and pays on its liabilities are established for a period of time. The change in market interest rates over time exposes the Bancorp to interest rate risk through potential adverse changes to net interest income and financial position. The Bancorp manages this risk by continually analyzing and adjusting the composition of its assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to changes in market interest rates. Additionally, in the ordinary course of business, the Bancorp enters into certain derivative transactions as part of its overall strategy to manage its interest rate and prepayment risks. The Bancorp is also exposed to the risk of losses on its loan and lease portfolio as a result of changing expected cash flows caused by borrower credit events, such as loan defaults and inadequate collateral due to a weakened economy within the Bancorp's footprint.

Noninterest income is derived from service charges on deposits, 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.

### ***Vantiv, Inc. and Vantiv Holding, LLC Transactions***

On July 27, 2016, the Bancorp entered into an agreement with Vantiv, Inc. under which a portion of its TRA with Vantiv, Inc. was terminated and settled in full for consideration of a cash payment in the amount of \$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 gain of \$116 million in other noninterest income in the Consolidated Statements of Income from this settlement in 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 gain of \$164 million in other noninterest income in the Consolidated Statements of Income in 2016 associated with these options. This agreement did not impact the TRA payments recognized in the fourth quarter of 2016 and is not expected to impact the TRA payment expected in the fourth quarter of 2017.

During the fourth quarter of 2016, the Bancorp exercised its right to purchase approximately 7.8 million Class C Units underlying the warrant at the \$15.98 strike price. This exercise was settled on a net basis for approximately 5.7 million Class C Units, which were then exchanged for approximately 5.7 million shares of Vantiv, Inc. Class A Common Stock of which 4.8 million shares were sold in a secondary offering and 0.9 million shares were repurchased by Vantiv, Inc. The Bancorp recognized a gain of \$9 million in other noninterest income in the Consolidated Statements of Income in 2016 on the exercise of the remaining warrant in Vantiv Holding, LLC.

### ***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 to sell 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 in other noninterest income. Additionally, on April 22, 2016, the Bancorp closed the previously announced sale in the Pittsburgh MSA to First National

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Bank of Pennsylvania and recorded a gain on the sale of \$11 million in other noninterest income. Both transactions were part of the Branch Consolidation and Sales Plan.

As of December 31, 2016, the Bancorp had 64 branch locations and 35 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 \$39 million, \$16 million and \$1 million of land and improvements, buildings and equipment, respectively, included in bank premises and equipment in the Consolidated Balance Sheets as of December 31, 2016, of which \$29 million, \$9 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. Approximately \$60 million of the \$72 million in total estimated annual savings are attributable to branches that were closed prior to December 31, 2016. For further information, refer to Note 7 of the Notes to 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 is being amortized as a reduction of rent expense over the 15 year lease term, and recorded a gain on the transaction of \$11 million in other noninterest income.

### **NorthStar Strategy**

In the third quarter of 2016, the Bancorp launched the NorthStar Strategy, a three-year plan designed to achieve the Bancorp's vision

to be the One Bank people most value and trust and deliver strong, consistent returns through longer term economic cycles.

The strategy is designed to impact every line of business, every employee and, most importantly, every customer. The Bancorp is focused on:

- Building a differentiated brand and corporate reputation by improving the customer experience, increasing brand equity and delivering on the Bancorp's \$30 billion community commitment.
- Delivering a better, more differentiated value proposition by investing in our sales and service channels and expanding on our products, solutions and expertise.
- Generating returns on average tangible common equity (non-GAAP) of 12% to 14%, a return on average assets of 1.1% to 1.3% and an efficiency ratio below 60% by the end of 2019.
- Achieving risk and operational excellence.

The Bancorp has implemented several initiatives to assist in achieving these goals, including the following: our partnership with GreenSky, upgrades to our mortgage and teller systems, expansion of credit card and treasury management products, focused growth in asset-based lending and our commercial verticals and acceleration of our automation and robotics initiatives.

### **Accelerated Share Repurchase Transactions**

During the years ended December 31, 2016 and 2015, the Bancorp entered into or settled a number of accelerated share repurchase transactions. As part of these transactions, the Bancorp entered into forward contracts in which the final number of shares delivered at settlement was based generally on a discount to the average daily volume weighted-average price of the Bancorp's common stock during the term of the repurchase agreements. For more information on the accelerated share repurchase program, refer to Note 23 of the Notes to Consolidated Financial Statements. For a summary of the Bancorp's accelerated share repurchase transactions that were entered into or settled during the years ended December 31, 2016 and 2015, refer to Table 2.

**TABLE 2: SUMMARY OF ACCELERATED SHARE REPURCHASE TRANSACTIONS**

Repurchase Date	Amount (\$ in millions)	Shares Repurchased on Repurchase Date	Shares Received from Forward Contract Settlement	Total Shares Repurchased	Settlement Date
October 23, 2014	180	8,337,875	794,245	9,132,120	January 8, 2015
January 27, 2015	180	8,542,713	1,103,744	9,646,457	April 28, 2015
April 30, 2015	155	6,704,835	842,655	7,547,490	July 31, 2015
August 3, 2015	150	6,039,792	1,346,314	7,386,106	September 3, 2015
September 9, 2015	150	6,538,462	1,446,613	7,985,075	October 23, 2015
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
December 20, 2016	155	4,843,750	1,044,362	5,888,112	February 6, 2017

### **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 due on March 15, 2019; and \$750 million of 3.85% subordinated fixed-rate notes 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 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 27, 2016, the Bank issued and sold \$1.0 billion in aggregate principal amount of unsecured senior bank notes due

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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**

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. During the fourth quarter of 2016, the FRB began a CRA examination of the Bank. For further information, refer to the Regulation and Supervision subsection of Part I, Item 1 of the Annual Report on Form 10-K.

**TABLE 3: CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31 (\$ in millions, except per share data)	2016	2015	2014	2013	2012
Interest income (FTE)	\$ 4,218	4,049	4,051	3,993	4,125
Interest expense	578	495	451	412	512
<b>Net Interest Income (FTE)</b>	<b>3,640</b>	<b>3,554</b>	<b>3,600</b>	<b>3,581</b>	<b>3,613</b>
Provision for loan and lease losses	343	396	315	229	303
<b>Net Interest Income After Provision for Loan and Lease Losses (FTE)</b>	<b>3,297</b>	<b>3,158</b>	<b>3,285</b>	<b>3,352</b>	<b>3,310</b>
Noninterest income	2,696	3,003	2,473	3,227	2,999
Noninterest expense	3,903	3,775	3,709	3,961	4,081
<b>Income Before Income Taxes (FTE)</b>	<b>2,090</b>	<b>2,386</b>	<b>2,049</b>	<b>2,618</b>	<b>2,228</b>
Fully taxable equivalent adjustment	25	21	21	20	18
Applicable income tax expense	505	659	545	772	636
<b>Net Income</b>	<b>1,560</b>	<b>1,706</b>	<b>1,483</b>	<b>1,826</b>	<b>1,574</b>
Less: Net income attributable to noncontrolling interests	(4)	(6)	2	(10)	(2)
<b>Net Income Attributable to Bancorp</b>	<b>1,564</b>	<b>1,712</b>	<b>1,481</b>	<b>1,836</b>	<b>1,576</b>
Dividends on preferred stock	75	75	67	37	35
<b>Net Income Available to Common Shareholders</b>	<b>\$ 1,489</b>	<b>1,637</b>	<b>1,414</b>	<b>1,799</b>	<b>1,541</b>
<b>Earnings per share - basic</b>	<b>\$ 1.95</b>	<b>2.03</b>	<b>1.68</b>	<b>2.05</b>	<b>1.69</b>
<b>Earnings per share - diluted</b>	<b>\$ 1.93</b>	<b>2.01</b>	<b>1.66</b>	<b>2.02</b>	<b>1.66</b>
<b>Cash dividends declared per common share</b>	<b>\$ 0.53</b>	<b>0.52</b>	<b>0.51</b>	<b>0.47</b>	<b>0.36</b>

**Earnings Summary**

The Bancorp's net income available to common shareholders for the year ended December 31, 2016 was \$1.5 billion, or \$1.93 per diluted share, which was net of \$75 million in preferred stock dividends. The Bancorp's net income available to common shareholders for the year ended December 31, 2015 was \$1.6 billion, or \$2.01 per diluted share, which was net of \$75 million in preferred stock dividends. Pre-provision net revenue was \$2.4 billion and \$2.8 billion for the years ended December 31, 2016 and 2015, respectively. 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 \$3.6 billion for both the years ended December 31, 2016 and 2015. Net interest income was positively impacted by increases in average taxable securities of \$3.1 billion and average loans and leases of \$981 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. Additionally, net interest income was positively impacted by the decision of the Federal Open Market Committee to raise the target range of the federal funds rate 25 bps to 50 bps in 2015 and 25 bps to 75 bps in 2016. These positive impacts were partially offset by an increase in average long-term debt of \$750 million coupled with a decrease in the net interest rate spread to 2.66% during the year ended December 31, 2016 from 2.69% during the year ended December 31, 2015. Net interest margin on an FTE basis (non-GAAP) was 2.88% for the both years ended December 31, 2016 and 2015, respectively.

Noninterest income decreased \$307 million from the year ended December 31, 2015 primarily due to decreases in other

noninterest income and mortgage banking net revenue partially offset by an increase in corporate banking revenue. Other noninterest income decreased \$291 million from the year ended December 31, 2015. The decrease included the impact of a gain of \$331 million on the sale of Vantiv, Inc. shares in the fourth quarter of 2015. The Bancorp recognized positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC of \$64 million and \$236 million for the years ended December 31, 2016 and 2015, respectively. In addition to valuation adjustments, during the fourth quarter of 2015, the Bancorp recognized a gain of \$89 million on both the sale and exercise of a portion of the warrant associated with Vantiv Holding, LLC compared with a gain of \$9 million on the sale of the remaining warrant in Vantiv Holding, LLC during 2016. These decreases were partially offset by an increase in income from the TRAs associated with Vantiv, Inc. of \$233 million during the year ended December 31, 2016 compared to the same period in the prior year and a decrease in net losses on disposition and impairment of bank premises and equipment of \$88 million during the year ended December 31, 2016 compared with the same period in the prior year. Mortgage banking net revenue decreased \$63 million from the year ended December 31, 2015 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 \$48 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily driven by increases in syndication fees and lease remarketing fees, partially offset by decreases in letter of credit fees and foreign exchange fees.

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Noninterest expense increased \$128 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to increases in personnel costs, technology and communications expense and other noninterest expense partially offset by decreases in net occupancy expense and card and processing expense. Personnel costs increased \$103 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 driven by an increase in base compensation, variable compensation, and higher retirement and severance costs related to the Bancorp's voluntary early retirement program. Technology and communications expense increased \$10 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 driven primarily by increased investment in information technology associated with regulatory and compliance initiatives, system maintenance and other growth initiatives. Other noninterest expense increased \$64 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to increases in FDIC insurance and other taxes, impairment on affordable housing investments, the provision for the reserve for unfunded commitments, losses and adjustments and operating lease expense. These increases were partially offset by decreases in travel expense, professional service fees and loan and lease expense. Card and processing expense decreased \$21 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 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 \$343 million and \$396 million for the years ended December 31, 2016 and 2015, respectively. Net losses charged-off as a percent of average portfolio loans and leases decreased to 0.39% during the year ended December 31, 2016 compared to 0.48% during the year ended December 31, 2015. At December 31, 2016, nonperforming portfolio assets as a percent of portfolio loans and leases and OREO increased to 0.80% 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 December 31, 2016, as calculated under the Basel III transition provisions, the CET1 capital ratio was 10.39%, the Tier I risk-based capital ratio was 11.50%, the Total risk-based capital ratio was 15.02% and the Tier I leverage ratio was 9.90%.

**NON-GAAP FINANCIAL MEASURES**

The following are non-GAAP measures which are important to the reader of the 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 4: NON-GAAP FINANCIAL MEASURES - NET INTEREST INCOME ON AN FTE BASIS, NET INTEREST MARGIN AND EFFICIENCY RATIO**

For the years ended December 31 (\$ in millions)	2016	2015
Net interest income (U.S. GAAP)	\$ 3,615	3,533
Add: FTE adjustment	25	21
Net interest income on an FTE basis (1)	\$ 3,640	3,554
Noninterest income (2)	\$ 2,696	3,003
Noninterest expense (3)	3,903	3,775
Average interest-earning assets (4)	126,285	123,584
<b>Ratios:</b>		
Net interest margin (1) / (4)	2.88 %	2.88
Efficiency ratio (3) / (1) + (2)	61.6	57.6

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

**TABLE 5: NON-GAAP FINANCIAL MEASURE - INCOME BEFORE INCOME TAXES ON AN FTE BASIS**

For the years ended December 31 (\$ in millions)	2016	2015
Income before income taxes (U.S. GAAP)	\$ 2,065	2,365
Add: FTE adjustment	25	21
Income before income taxes on an FTE basis	\$ 2,090	2,386

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 6: NON-GAAP FINANCIAL MEASURE - PRE-PROVISION NET REVENUE**

For the years ended December 31 (\$ in millions)	2016	2015
Net interest income (U.S. GAAP)	\$ 3,615	3,533
Add: Noninterest income	2,696	3,003
Less: Noninterest expense	(3,903)	(3,775)
Pre-provision net revenue	\$ 2,408	2,761

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.

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

**TABLE 7: NON-GAAP FINANCIAL MEASURE - RETURN ON AVERAGE TANGIBLE COMMON EQUITY**

For the years ended December 31 (\$ in millions)	2016	2015
Net income available to common shareholders (U.S. GAAP)	\$ 1,489	1,637
Add: Intangible amortization, net of tax	1	2
Tangible net income available to common shareholders (1)	\$ 1,490	1,639
Average Bancorp shareholders' equity (U.S. GAAP)	\$ 16,597	15,865
Less: Average preferred stock	(1,331)	(1,331)
Average goodwill	(2,416)	(2,416)
Average intangible assets and other servicing rights	(10)	(14)
Average tangible common equity (2)	\$ 12,840	12,104
Return on average tangible common equity (1) / (2)	11.6 %	13.5

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 Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**TABLE 8: NON-GAAP FINANCIAL MEASURES - CAPITAL RATIOS**

As of December 31 (\$ in millions)	2016	2015
<b>Total Bancorp Shareholders' Equity (U.S. GAAP)</b>	<b>\$ 16,205</b>	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)	12,448	12,079
Less: AOCI	(59)	(197)
Tangible common equity, excluding unrealized gains / losses (2)	12,389	11,882
Add: Preferred stock	1,331	1,331
Tangible equity (3)	<b>\$ 13,720</b>	13,213
<b>Total Assets (U.S. GAAP)</b>	<b>\$ 142,177</b>	141,048 <sup>(e)</sup>
Less: Goodwill	(2,416)	(2,416)
Intangible assets and other servicing rights	(10)	(13)
AOCI, before tax	(91)	(303)
Tangible assets, excluding unrealized gains / losses (4)	<b>\$ 139,660</b>	138,316
Common shares outstanding (shares in millions) (5)	750	785
<b>Ratios:</b>		
Tangible equity as a percentage of tangible assets (3) / (4)	9.82 %	9.55
Tangible common equity as a percentage of tangible assets (2) / (4)	8.87	8.59
Tangible book value per share (1) / (5)	<b>\$ 16.60</b>	15.39
<b>Basel III Final Rule - Transition to Fully Phased-In</b>		
CET1 capital (transitional)	<b>\$ 12,426</b>	11,917
Less: Adjustments to CET1 capital from transitional to fully phased-in <sup>(a)</sup>	(4)	(8)
CET1 capital (fully phased-in) (6)	12,422	11,909
Risk-weighted assets (transitional) <sup>(b)</sup>	119,632	121,290 <sup>(d)</sup>
Add: Adjustments to risk-weighted assets from transitional to fully phased-in <sup>(c)</sup>	1,115	1,178
Risk-weighted assets (fully phased-in) (7)	<b>\$ 120,747</b>	122,468 <sup>(d)</sup>
CET1 capital ratio under Basel III Final Rule (fully phased-in) (6) / (7)	<b>10.29 %</b>	9.72 <sup>(d)</sup>
(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) Balances not restated for the adoption of the amended guidance of ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs." Refer to Note 1 of the Notes to Consolidated Financial Statements for further information.		
(e) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 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 1 of the Notes to Consolidated Financial Statements.		



## RECENT ACCOUNTING STANDARDS

Note 1 of the Notes to Consolidated Financial Statements provides a discussion of the significant new accounting standards adopted by

the Bancorp during 2016 and the expected impact of significant accounting standards issued, but not yet required to be adopted.

## CRITICAL ACCOUNTING POLICIES

The Bancorp's 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. No material changes were made to the valuation techniques or models described below during the year ended December 31, 2016.

### **ALLL**

The Bancorp disaggregates its portfolio loans and leases into portfolio segments for purposes of determining the ALLL. The Bancorp's portfolio segments include commercial, residential mortgage and consumer. The Bancorp further disaggregates its portfolio segments into classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. For an analysis of the Bancorp's ALLL by portfolio segment and credit quality information by class, refer to Note 6 of the Notes to Consolidated Financial Statements.

The Bancorp maintains the ALLL to absorb probable loan and lease losses inherent in its portfolio segments. The ALLL is maintained at a level the Bancorp considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectability and historical loss experience of loans and leases. Credit losses are charged and recoveries are credited to the ALLL. Provisions for loan and lease losses are based on the Bancorp's review of the historical credit loss experience and such factors that, in management's judgment, deserve consideration under existing economic conditions in estimating probable credit losses. The Bancorp's strategy for credit risk management includes a combination of conservative exposure limits significantly below legal lending limits and conservative underwriting, documentation and collections standards. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

The Bancorp's methodology for determining the ALLL requires significant management judgment and is based on historical loss rates, current credit grades, specific allocation on loans modified in a TDR and impaired commercial credits above specified thresholds and other qualitative adjustments. Allowances on individual commercial loans, TDRs and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience. An unallocated allowance is maintained to recognize the imprecision in estimating and measuring losses when evaluating allowances for pools of loans.

Larger commercial loans included within aggregate borrower relationship balances exceeding \$1 million that exhibit probable or observed credit weaknesses, as well as loans that have been modified in a TDR, 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. Other factors may include

the industry and geographic region 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. When individual loans are impaired, allowances are determined based on management's estimate of the borrower's ability to repay the loan given the availability of collateral and other sources of cash flow, as well as an evaluation of legal options available to the Bancorp. Allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, fair value of the underlying collateral or readily observable secondary market values. The Bancorp evaluates the collectability of both principal and interest when assessing the need for a loss accrual.

Historical credit loss rates are applied to commercial loans that are not impaired or are impaired, but smaller than the established threshold of \$1 million and thus not subject to specific allowance allocations. The loss rates are derived from migration analyses for several portfolio stratifications, which track the historical net charge-off experience sustained on loans according to their internal risk grade. The risk grading system utilized for allowance analysis purposes encompasses ten categories.

Homogenous loans and leases in the residential mortgage and consumer portfolio segments are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks and allowances are established based on the expected net charge-offs. Loss rates are based on the trailing twelve month net charge-off history by loan category. Historical loss rates may be adjusted for certain prescriptive and qualitative factors that, in management's judgment, are necessary to reflect losses inherent in the portfolio. The prescriptive loss rate factors include adjustments for delinquency trends, LTV trends and refreshed FICO score trends.

The Bancorp also considers qualitative factors in determining the ALLL. These 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 Bancorp's primary market areas for lending are the Midwestern and Southeastern regions of the U.S. When evaluating the adequacy of allowances, consideration is given to these regional geographic concentrations and the closely associated effect changing economic conditions have on the Bancorp's customers. Refer to the Allowance for Credit Losses subsection of the Risk Management section of MD&A for a discussion on the Bancorp's ALLL sensitivity analysis.

### **Reserve for Unfunded Commitments**

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the Consolidated Balance Sheets. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience, credit risk grading and historical loss rates based on credit grade migration. This process takes into consideration the same risk elements that are analyzed in the determination of the adequacy of the Bancorp's

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ALLL, as previously discussed. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the Consolidated Statements of Income.

### **Income Taxes**

The income tax laws of the jurisdictions in which the Bancorp operates are complex and may be subject to different interpretations. The Bancorp evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information. The Bancorp maintains tax accruals consistent with its evaluation of these items.

Changes in the estimate of tax accruals occur periodically due to changes in tax rates, interpretation of tax laws and regulations, and other guidance issued by tax authorities and the status of examinations conducted by tax authorities, as well as the expiration of statutes of limitations. These changes may significantly impact the Bancorp's tax accruals, deferred taxes and income tax expense and may significantly impact the operating results of the Bancorp.

Deferred taxes are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is calculated based on the difference between the book and tax bases of the assets and liabilities using enacted tax rates and laws. Significant management judgment is required to determine the realizability of deferred tax assets. Deferred tax assets are recognized when management believes that it is more likely than not that the deferred tax assets will be realized. Where management has determined that it is not more likely than not that certain deferred tax assets will be realized, a valuation allowance is maintained. For additional information on income taxes, refer to Note 20 of the Notes to Consolidated Financial Statements.

### **Valuation of Servicing Rights**

When the Bancorp sells loans through either securitizations or individual loan sales in accordance with its investment policies, it often obtains servicing rights. Servicing rights resulting from loan sales are initially recorded at fair value and subsequently amortized in proportion to, and over the period of, estimated net servicing revenue. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and other-than-temporary impairment recognized through a write-off of the servicing asset and related valuation allowance. Significant management judgement is necessary to identify key economic assumptions used in measuring any potential impairment of the servicing rights including the prepayment speeds of the underlying loans, the weighted-average life, the OAS spread and the weighted-average coupon rate, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speeds. The Bancorp monitors risk and adjusts its valuation allowance as necessary to adequately reserve for impairment in the servicing portfolio. In order to assist in this assessment, the Bancorp obtains external valuations of the MSR portfolio from third parties and participates

in peer surveys that provide additional confirmation of the reasonableness of key assumptions utilized in the internal OAS model. For purposes of measuring impairment, the MSRs are stratified into classes based on the financial asset type (fixed-rate vs. adjustable-rate) and interest rates. For additional information on servicing rights, refer to Note 12 of the Notes to Consolidated Financial Statements.

### **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. Valuation techniques the Bancorp uses to measure fair value include the market approach, income approach and cost approach. The market approach uses prices or relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach involves discounting future amounts to a single present amount and is based on current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of the asset.

U.S. GAAP 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 additional information on the fair value hierarchy and fair value measurements, refer to Note 1 of the Notes to Consolidated Financial Statements.

The Bancorp's fair value measurements involve various valuation techniques and models, which involve inputs that are observable, when available. Valuation techniques and parameters used for measuring assets and liabilities are reviewed and validated by the Bancorp on a quarterly basis. Additionally, the Bancorp monitors the fair values of significant assets and liabilities using a variety of methods including the evaluation of pricing runs and exception reports based on certain analytical criteria, comparison to previous trades and overall review and assessments for reasonableness. The level of management judgement necessary to determine fair value varies based upon the methods used in the determination of fair value. Financial instruments that are measured at fair value using quoted prices in active markets (Level 1) require minimal judgement. The valuation of financial instruments when quoted market prices are not available (Levels 2 and 3) may require significant management judgement to assess whether quoted prices for similar instruments exist, the impact of changing market conditions including reducing liquidity in the capital markets, and, the use of estimates surrounding significant unobservable inputs. Table 8 provides a summary of the fair value of financial instruments carried at fair value on a recurring basis and the amounts of financial instruments valued using Level 3 inputs.

**TABLE 9: FAIR VALUE SUMMARY**

As of (\$ in millions)	December 31, 2016		December 31, 2015	
	Balance	Level 3	Balance	Level 3
Assets carried at fair value	\$ 32,872	156	31,364	444
As a percent of total assets	23 %	-	22	-
Liabilities carried at fair value	\$ 687	96	967	64
As a percent of total liabilities	1 %	-	1	-

Refer to Note 27 of the Notes to Consolidated Financial Statements for further information on fair value measurements including a description of the valuation methodologies used for significant financial instruments.

***Goodwill***

Business combinations entered into by the Bancorp typically include the acquisition of goodwill. U.S. GAAP requires goodwill to be tested for impairment at the Bancorp's reporting unit level on an annual basis, which for the Bancorp is September 30, and more frequently if events or circumstances indicate that there may be impairment. Refer to Note 1 of the Notes to Consolidated Financial Statements for a discussion on the methodology used by the Bancorp to assess goodwill for impairment.

Impairment exists when a reporting unit's carrying amount of goodwill exceeds its implied fair value. In testing goodwill for impairment, U.S. GAAP permits the Bancorp to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In this qualitative assessment, the Bancorp evaluates events and circumstances which may include, but are not limited to, the general economic environment, banking industry and market conditions, the overall financial performance of the Bancorp, the performance of the Bancorp's common stock, the key financial performance metrics of the Bancorp's reporting units and events affecting the reporting units to determine if it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. If the two-step impairment test is required or the decision to bypass the qualitative assessment is elected, the Bancorp would be required to perform the first step (Step 1) of the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, Step 2 of the goodwill impairment test is performed to measure the amount of impairment loss, if any.

The fair value of a reporting unit is the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. As none of the Bancorp's reporting units are publicly traded, individual reporting unit fair value determinations cannot be directly correlated to the Bancorp's stock price. The determination of the fair value of a reporting unit is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, the appropriate discount rates and an applicable control premium. The Bancorp employs an income-based approach, utilizing the reporting unit's forecasted cash flows (including a terminal value approach to estimate cash flows beyond the final year of the forecast) and the reporting unit's estimated cost of equity as the discount rate. Significant management judgment is necessary in the preparation of each reporting unit's forecasted cash flows surrounding expectations for earnings projections, growth and credit loss expectations and actual results may differ from forecasted results. Additionally, the Bancorp determines its market capitalization based on the average of the closing price of the Bancorp's stock during the month including the measurement date, incorporating an additional control premium, and compares this market-based fair value measurement to the aggregate fair value of the Bancorp's reporting units in order to corroborate the results of the income approach.

When required to perform Step 2, the Bancorp compares the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss equal to that excess amount is recognized. A recognized impairment loss cannot exceed the carrying amount of that goodwill and cannot be reversed in future periods even if the fair value of the reporting unit subsequently recovers.

During Step 2, the Bancorp determines the implied fair value of goodwill for a reporting unit by assigning the fair value of the reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. Significant management judgment is necessary in the identification and valuation of unrecognized intangible assets and the valuation of the reporting unit's recorded assets and liabilities. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. This assignment process is only performed for purposes of testing goodwill for impairment. The Bancorp does not adjust the carrying values of recognized assets or liabilities (other than goodwill, if appropriate), nor does it recognize previously unrecognized intangible assets in the Consolidated Financial Statements as a result of this assignment process. Refer to Note 9 of the Notes to Consolidated Financial Statements for further information regarding the Bancorp's goodwill.

***Legal Contingencies***

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 and significant judgment may be required in the determination of both the probability of loss and whether the amount of the loss is reasonably estimable. The Bancorp's estimates are subjective and are based on the status of legal and regulatory proceedings, the merit of the Bancorp's defenses and consultation with internal and external legal counsel. 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. Refer to Note 18 of the Notes to Consolidated Financial Statements for further information regarding the Bancorp's legal proceedings.

**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 10 and 11 present the components of net interest income, net interest margin and net interest rate spread for the years ended December 31, 2016, 2015 and 2014, as well as the relative impact of changes in the balance sheet and changes in interest rates on net interest income. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale securities included in other assets.

Net interest income on an FTE basis (non-GAAP) was \$3.6 billion for both the years ended December 31, 2016 and 2015. Net interest income was positively impacted by increases in average taxable securities of \$3.1 billion and average loans and leases of \$981 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. Additionally, net interest income was positively impacted by the decision of the Federal Open Market Committee to raise the target range of the federal funds rate 25 bps to 50 bps in December 2015 and 25 bps to 75 bps in December 2016. These positive impacts were partially offset by an increase in average long-term debt of \$750 million coupled with a decrease in the net interest rate spread to 2.66% during the year ended December 31, 2016 from 2.69% during the year ended December 31, 2015. The decrease in the net interest rate spread was driven by a 9 bps increase on rates paid on average interest-bearing liabilities partially offset by a 6 bps increase in yields on average interest-earning assets.

Net interest margin on an FTE basis (non-GAAP) was 2.88% for both the years ended December 31, 2016 and 2015. Net interest margin was positively impacted by an increase in average free funding balances partially offset by the aforementioned decrease in net interest rate spread coupled with an increase of \$2.7 billion in average interest-earning assets. The increase in average free funding balances was driven by increases in average demand deposits and average shareholders' equity of \$698 million and \$727 million, respectively, for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Interest income on an FTE basis (non-GAAP) from loans and leases increased \$86 million compared to the year ended December 31, 2015 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 \$981 million during the year ended December 31, 2016 compared to the year ended December 31, 2015 and was primarily driven by increases in average residential mortgage loans, average commercial construction loans and average commercial and industrial loans partially offset by decreases in average automobile loans and average home equity. Yields on average loans and leases increased 5 bps during the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily as a result of increases in yields on average commercial construction loans, average commercial and industrial loans and average home equity loans partially offset by a decrease in yields on average credit cards which included the impact of a \$16 million reduction in interest income related to refunds to be offered to certain bankcard customers. 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 \$83 million compared to the year ended December 31, 2015. The increase was primarily the result of the previously mentioned increase in average taxable securities, partially offset by a decrease of \$14 million in dividends on FRB stock, due to the amended provisions of the Federal Reserve Act governing dividend payments to FRB stockholders.

Interest expense on core deposits increased \$15 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. This increase was primarily due to increases in the cost of average interest-bearing core deposits to 26 bps for the year ended December 31, 2016 compared to 24 bps for the year ended December 31, 2015. The increase in the cost of average interest-bearing core deposits was primarily due to an increase in the cost of average interest checking and 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 \$68 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to an increase of 26 bps in the rates paid on average long-term debt coupled with the aforementioned increase in average long-term debt. Refer to the Borrowings subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp's borrowings. Average wholesale funding represented 26% and 24% of average interest-bearing liabilities during the years ended December 31, 2016 and 2015, respectively. For more information on the Bancorp's interest rate risk management, including estimated earnings sensitivity to changes in market interest rates, see the Market Risk Management subsection of the Risk Management section of MD&A.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**TABLE 10: CONSOLIDATED AVERAGE BALANCE SHEET AND ANALYSIS OF NET INTEREST INCOME ON AN FTE BASIS**

For the years ended December 31	2016			2015			2014		
(\$ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate
<b>Assets:</b>									
Interest-earning assets:									
Loans and leases: <sup>(a)</sup>									
Commercial and industrial loans	\$ 43,184	1,413	3.27%	\$ 42,594	1,334	3.13%	\$ 41,178	1,346	3.27%
Commercial mortgage loans	6,899	229	3.32	7,121	227	3.19	7,745	260	3.36
Commercial construction loans	3,648	125	3.42	2,717	86	3.17	1,492	51	3.44
Commercial leases	3,916	105	2.69	3,796	106	2.78	3,585	108	3.01
Total commercial loans and leases	57,647	1,872	3.25	56,228	1,753	3.12	54,000	1,765	3.27
Residential mortgage loans	15,101	535	3.54	13,798	509	3.69	13,344	518	3.88
Home equity	7,998	302	3.78	8,592	312	3.63	9,059	336	3.71
Automobile loans	10,708	290	2.71	11,847	315	2.66	12,068	334	2.77
Credit card	2,205	214	9.69	2,303	237	10.27	2,271	227	9.98
Other consumer loans and leases	661	44	6.56	571	45	8.00	385	138	35.99
Total consumer loans and leases	36,673	1,385	3.78	37,111	1,418	3.82	37,127	1,553	4.18
Total loans and leases	\$ 94,320	3,257	3.45%	\$ 93,339	3,171	3.40%	\$ 91,127	3,318	3.64%
Securities:									
Taxable	30,019	950	3.16	26,932	867	3.22	21,770	722	3.32
Exempt from income taxes <sup>(a)</sup>	80	3	4.51	55	3	5.23	53	3	4.94
Other short-term investments	1,866	8	0.44	3,258	8	0.25	3,043	8	0.26
Total interest-earning assets	\$ 126,285	4,218	3.34%	\$ 123,584	4,049	3.28%	\$ 115,993	4,051	3.49%
Cash and due from banks	2,303			2,608			2,892		
Other assets	14,963			15,179 <sup>(a)</sup>			14,505 <sup>(a)</sup>		
Allowance for loan and lease losses	(1,285)			(1,293)			(1,481)		
Total assets	\$ 142,266			\$ 140,078 <sup>(a)</sup>			\$ 131,909 <sup>(a)</sup>		
<b>Liabilities and Equity:</b>									
Interest-bearing liabilities:									
Interest checking deposits	\$ 25,143	58	0.23%	\$ 26,160	50	0.19%	\$ 25,382	56	0.22%
Savings deposits	14,346	7	0.05	14,951	9	0.06	16,080	16	0.10
Money market deposits	19,523	53	0.27	18,152	44	0.24	14,670	51	0.35
Foreign office deposits	497	1	0.16	817	1	0.16	1,828	5	0.29
Other time deposits	4,010	49	1.24	4,051	49	1.20	3,762	40	1.06
Total interest-bearing core deposits	63,519	168	0.26	64,131	153	0.24	61,722	168	0.27
Certificates \$100,000 and over	2,735	36	1.30	2,869	33	1.16	3,929	34	0.85
Other deposits	333	1	0.41	57	-	0.16	-	-	0.02
Federal funds purchased	506	2	0.39	920	1	0.13	458	-	0.09
Other short-term borrowings	2,845	10	0.36	1,721	2	0.12	1,873	2	0.10
Long-term debt	15,394	361	2.35	14,644 <sup>(a)</sup>	306	2.09	12,894 <sup>(a)</sup>	247	1.91
Total interest-bearing liabilities	\$ 85,332	578	0.68%	\$ 84,342 <sup>(a)</sup>	495	0.59%	\$ 80,876 <sup>(a)</sup>	451	0.56%
Demand deposits	35,862			35,164			31,755		
Other liabilities	4,445			4,672			3,950		
Total liabilities	\$ 125,639			\$ 124,178 <sup>(a)</sup>			\$ 116,581 <sup>(a)</sup>		
Total equity	\$ 16,627			\$ 15,900			\$ 15,328		
Total liabilities and equity	\$ 142,266			\$ 140,078 <sup>(a)</sup>			\$ 131,909 <sup>(a)</sup>		
Net interest income (FTE) <sup>(b)</sup>		\$ 3,640			\$ 3,554			\$ 3,600	
Net interest margin (FTE) <sup>(b)</sup>			2.88%			2.88%			3.10%
Net interest rate spread (FTE) <sup>(b)</sup>			2.66			2.69			2.94
Interest-bearing liabilities to interest-earning			67.57			68.25 <sup>(a)</sup>			69.73 <sup>(a)</sup>

(a) The FTE adjustments included in the above table were \$25 for the year ended December 31, 2016 and \$21 for both the years ended December 31, 2015 and 2014.

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

(c) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 and 2014 Consolidated Balance Sheets were adjusted to reflect the reclassification of \$33 and \$34, respectively, of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 1 of the Notes to Consolidated Financial Statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**TABLE 11: CHANGES IN NET INTEREST INCOME ATTRIBUTABLE TO VOLUME AND YIELD/RATE<sup>(a)</sup>**

For the years ended December 31 (\$ in millions)	2016 Compared to 2015			2015 Compared to 2014		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
<b>Assets:</b>						
Interest-earning assets:						
Loans and leases:						
Commercial and industrial loans	\$ 19	60	79	45	(57)	(12)
Commercial mortgage loans	(7)	9	2	(21)	(12)	(33)
Commercial construction loans	32	7	39	39	(4)	35
Commercial leases	3	(4)	(1)	6	(8)	(2)
<b>Total commercial loans and leases</b>	<b>47</b>	<b>72</b>	<b>119</b>	<b>69</b>	<b>(81)</b>	<b>(12)</b>
Residential mortgage loans	47	(21)	26	17	(26)	(9)
Home equity	(22)	12	(10)	(17)	(7)	(24)
Automobile loans	(31)	6	(25)	(5)	(14)	(19)
Credit card	(10)	(13)	(23)	3	7	10
Other consumer loans and leases	8	(9)	(1)	47	(140)	(93)
<b>Total consumer loans and leases</b>	<b>(8)</b>	<b>(25)</b>	<b>(33)</b>	<b>45</b>	<b>(180)</b>	<b>(135)</b>
<b>Total loans and leases</b>	<b>\$ 39</b>	<b>47</b>	<b>86</b>	<b>114</b>	<b>(261)</b>	<b>(147)</b>
Securities:						
Taxable	98	(15)	83	167	(22)	145
Other short-term investments	(4)	4	-	-	-	-
<b>Total change in interest income</b>	<b>\$ 133</b>	<b>36</b>	<b>169</b>	<b>281</b>	<b>(283)</b>	<b>(2)</b>
<b>Liabilities:</b>						
Interest-bearing liabilities:						
Interest checking deposits	\$ (3)	11	8	2	(8)	(6)
Savings deposits	-	(2)	(2)	(1)	(6)	(7)
Money market deposits	4	5	9	10	(17)	(7)
Foreign office deposits	-	-	-	(2)	(2)	(4)
Other time deposits	(1)	1	-	3	6	9
<b>Total interest-bearing core deposits</b>	<b>-</b>	<b>15</b>	<b>15</b>	<b>12</b>	<b>(27)</b>	<b>(15)</b>
Certificates \$100,000 and over	(1)	4	3	(11)	10	(1)
Other deposits	1	-	1	-	-	-
Federal funds purchased	-	1	1	1	-	1
Other short-term borrowings	2	6	8	-	-	-
Long-term debt	15	40	55	35	24	59
<b>Total change in interest expense</b>	<b>\$ 17</b>	<b>66</b>	<b>83</b>	<b>37</b>	<b>7</b>	<b>44</b>
<b>Total change in net interest income</b>	<b>\$ 116</b>	<b>(30)</b>	<b>86</b>	<b>244</b>	<b>(290)</b>	<b>(46)</b>

(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.

**Provision for Loan and Lease Losses**

The Bancorp provides as an expense an amount for probable losses within the loan and lease portfolio that is based on factors previously discussed in the Critical Accounting Policies section of MD&A. 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 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.

The provision for loan and lease losses was \$343 million for the year ended December 31, 2016 compared to \$396 million for the same period in the prior year. The decrease in provision expense for the year ended December 31, 2016 compared to the prior year

was primarily due to the decrease in the level of commercial criticized assets, which reflected improvement in the national economy and stabilization of commodity prices, and a decrease in outstanding loan balances. The ALLL declined \$19 million from December 31, 2015 to \$1.3 billion at December 31, 2016. At December 31, 2016, the ALLL as a percent of portfolio loans and leases decreased to 1.36%, compared to 1.37% at December 31, 2015.

Refer to the Credit Risk Management subsection of the Risk Management section of MD&A as well as Note 6 of the Notes to Consolidated Financial Statements for more detailed information on the provision for loan and lease losses, including an analysis of loan 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 decreased \$307 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The following table presents the components of noninterest income:

**TABLE 12: COMPONENTS OF NONINTEREST INCOME**

For the years ended December 31 (\$ in millions)	2016	2015	2014	2013	2012
Service charges on deposits	\$ 558	563	560	549	522
Corporate banking revenue	432	384	430	400	413
Wealth and asset management revenue	404	418	407	393	374
Card and processing revenue	319	302	295	272	253
Mortgage banking net revenue	285	348	310	700	845
Other noninterest income	688	979	450	879	574
Securities gains, net	10	9	21	21	15
Securities gains, net - non-qualifying hedges on mortgage service rights	-	-	-	13	3
Total noninterest income	\$ 2,696	3,003	2,473	3,227	2,999

#### Service charges on deposits

Service charges on deposits decreased \$5 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 due primarily to a \$10 million decrease in consumer deposit fees driven by a decrease in consumer checking fees, partially offset by a \$5 million increase in commercial deposit fees driven by new customer acquisition.

#### Corporate banking revenue

Corporate banking revenue increased \$48 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase from the prior year was primarily driven by increases in syndication fees and lease remarketing fees. The increase was partially offset by decreases in letter of credit fees and foreign exchange fees. Syndication fees increased \$32 million compared to the year ended December 31, 2015 as a result of increased activity in the market and gains in specialized business segments. Lease remarketing fees increased \$30 million for the year ended December 31, 2016 from the prior year and included the impact of \$16 million in gains on certain leveraged lease terminations. Additionally, the increase included the impact of impairment charges of \$20 million related to certain operating lease equipment that were recognized during the year ended December 31, 2016 compared to \$36 million recognized during the year ended December 31, 2015. Letter of credit fees decreased \$10 million for the year ended December 31, 2016 compared to the prior year primarily driven by a decrease in outstanding VRDNs. Foreign

#### Mortgage banking net revenue

Mortgage banking net revenue decreased \$63 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The following table presents the components of mortgage banking net revenue:

**TABLE 13: COMPONENTS OF MORTGAGE BANKING NET REVENUE**

For the years ended December 31 (\$ in millions)	2016	2015	2014
Origination fees and gains on loan sales	\$ 186	171	153
Net mortgage servicing revenue:			
Gross mortgage servicing fees	199	222	246
MSR amortization	(131)	(139)	(119)
Net valuation adjustments on MSRs and free-standing derivatives purchased to economically hedge MSRs	31	94	30
Net mortgage servicing revenue	99	177	157
Mortgage banking net revenue	\$ 285	348	310

Origination fees and gains on loan sales increased \$15 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 driven by an increase in saleable residential mortgage loan originations. Residential mortgage loan originations increased to \$10.0 billion for the year ended December 31, 2016 from \$8.3 billion for the year ended December 31, 2015.

exchange fees decreased \$8 million during the year ended December 31, 2016 compared to the prior year primarily driven by lower volume coupled with lower currency volatility.

#### Wealth and asset management revenue

Wealth and asset management revenue (formerly investment advisory revenue) decreased \$14 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The decrease from the prior year was primarily due to a decrease of \$16 million in securities and brokerage fees driven by lower transactional fees partially offset by an increase in managed account fee-based business. The decrease was partially offset by a \$2 million increase in private client service fees and institutional fees for the year ended December 31, 2016 compared to the year ended December 31, 2015. The Bancorp's Trust, Brokerage and Insurance businesses had approximately \$315 billion and \$297 billion in total assets under care as of December 31, 2016 and 2015, respectively, and managed \$31 billion and \$29 billion in assets for individuals, corporations and not-for-profit organizations as of December 31, 2016 and 2015, respectively.

#### Card and processing revenue

Card and processing revenue increased \$17 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily driven by an increase in the number of actively used cards and customer spend volume.

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 \$78 million for the year ended December 31, 2016 compared to the year ended December 31, 2015

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driven primarily by a decrease of \$63 million in net valuation adjustments, as well as a decrease in gross mortgage servicing fees of \$23 million. The decrease was partially offset by a decrease in MSR

amortization of \$8 million for the year ended December 31, 2016 compared to 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 for the years ended December 31:

**TABLE 14: COMPONENTS OF NET VALUATION ADJUSTMENTS ON MSRs**

(\$ in millions)	2016	2015	2014
Changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio	\$ 24	90	95
Recovery of (provision for) MSR impairment	7	4	(65)
Net valuation adjustments on MSRs and free-standing derivatives purchased to economically hedge MSRs	\$ 31	94	30

Mortgage rates increased during the year ended December 31, 2016 which caused modeled prepayment speeds to decrease, leading to a recovery of temporary impairment on the servicing rights during the year. Mortgage rates increased during the year ended December 31, 2015 which caused the modeled prepayment speeds to decrease, which led to a recovery of temporary impairment on the servicing rights during the year.

Servicing rights are deemed impaired when a borrower's loan rate is distinctly higher than prevailing rates. Impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower's loan rate. Further detail on the valuation of MSRs can be found in Note 12 of the Notes to Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk

associated with changes in the valuation on the MSR portfolio. Refer to Note 13 of the Notes to Consolidated Financial Statements for more information on the free-standing derivatives used to economically hedge the MSR portfolio.

In addition to the derivative positions used to economically hedge the MSR portfolio, the Bancorp may acquire various securities as a component of its non-qualifying hedging strategy. The Bancorp did not hold or sell securities related to the non-qualifying hedging strategy during the years ended December 31, 2016 and 2015.

The Bancorp's total residential loans serviced at December 31, 2016 and 2015 were \$69.3 billion and \$73.4 billion, respectively, with \$53.6 billion and \$59.0 billion, respectively, of residential mortgage loans serviced for others.

*Other noninterest income*

The following table presents the components of other noninterest income:

**TABLE 15: COMPONENTS OF OTHER NONINTEREST INCOME**

For the years ended December 31 (\$ in millions)	2016	2015	2014
Income from the TRA associated with Vantiv, Inc.	\$ 313	80	23
Operating lease income	102	89	84
Equity method income from interest in Vantiv Holding, LLC	66	63	48
Valuation adjustments on the warrant associated with Vantiv Holding, LLC	64	236	31
BOLI income	53	48	44
Cardholder fees	46	43	45
Consumer loan and lease fees	23	23	25
Banking center income	20	21	30
Gain on sale of certain retail branch operations	19	-	-
Private equity investment income	11	28	27
Insurance income	11	14	13
Net gains on loan sales	10	38	-
Gain on sale and exercise of the warrant associated with Vantiv Holding, LLC.	9	89	-
Gain on sale of Vantiv, Inc. shares	-	331	125
Loss on swap associated with the sale of Visa, Inc. Class B shares	(56)	(37)	(38)
Net losses on disposition and impairment of bank premises and equipment	(13)	(101)	(19)
Other, net	10	14	12
Total other noninterest income	\$ 688	979	450

Other noninterest income decreased \$291 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. The decrease included the impact of a gain of \$331 million on the sale of Vantiv, Inc. shares in the fourth quarter of 2015, decreases in positive valuation adjustments on the warrant associated with Vantiv Holding, LLC, a decrease in the gain on the sale and exercise of the warrant associated with Vantiv Holding, LLC, decreases in 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. These decreases were partially offset by increases in the income from the TRA

associated with Vantiv, Inc. and a decrease in the net losses on disposition and impairment of bank premises and equipment as well as gains on sales of certain retail branch operations and an increase in operating lease income.

The Bancorp recognized positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC of \$64 million and \$236 million for the years ended December 31, 2016 and 2015, respectively. The fair value of the stock warrant was 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 positive valuation adjustments for



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years ended December 31, 2016 and 2015 were primarily due to increases of 24% and 40%, respectively, in Vantiv, Inc.'s share price from December 31, 2015 to November 22, 2016 and from December 31, 2014 to December 31, 2015, respectively. In addition to valuation adjustments, during the fourth quarter of 2015, the Bancorp recognized a gain of \$89 million on both the sale and exercise of a portion of the warrant associated with Vantiv Holding, LLC. During the fourth quarter of 2016, the Bancorp recognized a gain of \$9 million on the exercise of the remaining warrant in Vantiv Holding, LLC. For additional information on the valuation of the warrant, refer to Note 27 of the Notes to Consolidated Financial Statements.

Net gains on loan sales decreased \$28 million for the year ended December 31, 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.

Private equity investment income decreased \$17 million for the year ended December 31, 2016, compared to same period in the prior year primarily driven by the recognition of \$9 million of OTTI on certain private equity investments in the third quarter of 2016. Refer to Note 27 of the Notes to Consolidated Financial Statements for further information.

During the year ended December 31, 2016, the Bancorp recognized \$56 million of negative valuation adjustments related to the Visa total return swap compared to \$37 million during same period in the prior year. The adjustments for the year ended December 31, 2016 were 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 17, Note 18 and Note 27 of the Notes to Consolidated Financial Statements.

Income from the TRAs associated with Vantiv, Inc. increased \$233 million during the year ended December 31, 2016 compared to the same period in the prior year. This increase was primarily driven by a \$280 million gain recognized in 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. During the fourth quarter of 2015, the Bancorp recognized a \$49 million gain from the payment from Vantiv, Inc. to terminate a portion of the TRA. Additionally, the Bancorp recognized a gain of \$33 million associated with the annual TRA payment during the fourth quarter of 2016 compared to a \$31 million gain during the same period in the prior year.

Net losses on disposition and impairment of bank premises and equipment decreased \$88 million during the year ended December 31, 2016 compared with the same period in the prior year. This decrease was driven by impairment charges of \$32 million during the year ended December 31, 2016 compared to impairment charges of \$109 million recognized during the year ended December 31, 2015. The impairment charges for the year ended December 31, 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 Consolidated Financial Statements.

Gains on sales of certain retail branch operations of \$19 million for the year ended December 31, 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.

Operating lease income increased \$13 million primarily as a result of an increase in syndication and participation origination activity.

### *Noninterest Expense*

Noninterest expense increased \$128 million for the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits), technology and communications and other noninterest expense partially offset by decreases in net occupancy expense and card and processing expense. The following table presents the components of noninterest expense:

**TABLE 16: COMPONENTS OF NONINTEREST EXPENSE**

For the years ended December 31 (\$ in millions)	2016	2015	2014	2013	2012
Salaries, wages and incentives	\$ 1,612	1,525	1,449	1,581	1,607
Employee benefits	339	323	334	357	371
Net occupancy expense	299	321	313	307	302
Technology and communications	234	224	212	204	196
Card and processing expense	132	153	141	134	121
Equipment expense	118	124	121	114	110
Other noninterest expense	1,169	1,105	1,139	1,264	1,374
Total noninterest expense	\$ 3,903	3,775	3,709	3,961	4,081
Efficiency ratio on an FTE basis <sup>(a)</sup>	61.6 %	57.6	61.1	58.2	61.7

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

Personnel costs increased \$103 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 driven by an increase in base compensation, primarily due to personnel additions in risk and compliance and information technology, and increased variable compensation, as well as higher retirement and severance costs related to the Bancorp's voluntary early retirement program. Full-time equivalent employees totaled 17,844 at December 31, 2016 compared to 18,261 at December 31, 2015.

Technology and communications expense increased \$10 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 driven primarily by increased investment in information technology associated with regulatory and compliance initiatives, system maintenance and other growth initiatives.

Net occupancy expense decreased \$22 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to a decrease in rent expense driven by a

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reduction in the number of full-service banking centers and ATM locations.

Card and processing expense decreased \$21 million for the year ended December 31, 2016 compared to the year ended December

31, 2015 primarily due to the impact of renegotiated service contracts.

The following table presents the components of other noninterest expense:

**TABLE 17: COMPONENTS OF OTHER NONINTEREST EXPENSE**

For the years ended December 31 (\$ in millions)	2016	2015	2014
Impairment on affordable housing investments	\$ 168	145	135
FDIC insurance and other taxes	126	99	89
Loan and lease	110	118	119
Marketing	104	110	98
Operating lease	86	74	67
Losses and adjustments	73	55	188
Professional service fees	61	70	72
Data processing	51	45	41
Postal and courier	46	45	47
Travel	45	54	52
Recruitment and education	37	33	28
Provision for (benefit from) the reserve for unfunded commitments	23	4	(27)
Donations	23	29	18
Insurance	15	17	16
Supplies	14	16	15
Other, net	187	191	181
<b>Total other noninterest expense</b>	<b>\$ 1,169</b>	<b>1,105</b>	<b>1,139</b>

Other noninterest expense increased \$64 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to increases in FDIC insurance and other taxes, impairment on affordable housing investments, the provision for the reserve for unfunded commitments, losses and adjustments and operating lease expense partially offset by decreases in travel expense, professional service fees and loan and lease expense.

FDIC insurance and other taxes increased \$27 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 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 \$23 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to incremental losses resulting from previous growth in the portfolio. For further information, refer to Note 11 of the Notes to Consolidated Financial Statements. The provision for the reserve for unfunded commitments increased \$19 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to an increase in estimated loss rates related to unfunded

**Applicable Income Taxes**

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

The effective tax rates for the years ended December 31, 2016 and 2015 were primarily impacted by \$182 million and \$178 million, respectively, in tax credits and \$56 million and \$39 million of tax

commitments. Losses and adjustments increased \$18 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to the impact of favorable legal settlements for the year ended December 31, 2015 partially offset by a decrease in legal settlements and reserve expense for the year ended December 31, 2016. Operating lease expense increased \$12 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to an increase in the volume of leases. Travel expense and professional service fees both decreased \$9 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to overall expense control. Loan and lease expense decreased \$8 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to 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 on an FTE basis was 61.6% for the year ended December 31, 2016 compared to 57.6% for the year ended December 31, 2015. The efficiency ratio on an FTE basis is a non-GAAP measure. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

benefits from tax exempt income in 2016 and 2015, respectively. The decrease in the effective tax rate from the year ended December 31, 2015 to the year ended December 31, 2016 was primarily related to a decrease in income before taxes, the increase in tax exempt income, and a change in the estimated deductibility of a prior expense.

During 2016, the Bancorp adopted ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", effective as of January 1, 2016. Consistent with existing U.S. GAAP and ASU 2016-09, the Bancorp establishes a deferred tax asset and recognizes a corresponding deferred tax benefit for stock-based awards granted to its employees and directors based on enacted tax rates and the expense recorded for financial reporting purposes. The actual tax deduction for these stock-based awards is determined when the stock-based awards are settled or expired and the tax

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deductions will typically be greater than or less than the expense previously recognized for financial reporting.

Among other requirements, ASU 2016-09 requires that the tax consequences for the difference between the expense recognized for financial reporting and the Bancorp's actual tax deduction for the stock-based awards be recognized through income tax expense in the interim periods in which they occur. Prior to the adoption of ASU 2016-09, the tax consequences for the difference between the expense recognized for financial reporting and the actual tax deduction for stock-based awards was recognized either through additional paid-in-capital when the Bancorp accumulated "excess tax benefits" from stock based awards or through income tax

expense when the Bancorp depleted its accumulated "excess tax benefits" from stock-based awards.

The Bancorp cannot predict its stock price or whether and when its employees will exercise stock-based awards in the future. As of December 31, 2016, the Bancorp does not believe it will be necessary to recognize a material impact to tax expense over the next twelve months related to the settlement of stock-based awards. However, the amount of income tax expense or benefit recognized upon settlement may vary significantly from expectations based on the Bancorp's stock price and the number of SARs exercised by employees.

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

**TABLE 18: APPLICABLE INCOME TAXES**

For the years ended December 31 (\$ in millions)	<b>2016</b>	2015	2014	2013	2012
Income before income taxes	<b>\$ 2,065</b>	2,365	2,028	2,598	2,210
Applicable income tax expense	<b>505</b>	659	545	772	636
Effective tax rate	<b>24.4 %</b>	27.8	26.9	29.7	28.8

**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 30 of the Notes to 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. By employing an FTP methodology, the business segments are insulated from most benchmark interest rate volatility, enabling them to focus on serving customers through the origination of loans and acceptance of deposits. The FTP methodology assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on the estimated amount and timing of cash flows for each transaction. Assigning the FTP rate based on matching the duration of cash flows allocates interest income and interest expense to each business segment so its resulting net interest income is insulated from future changes in benchmark interest rates. The Bancorp's FTP methodology also allocates the contribution to net interest income of the asset-generating and deposit-providing businesses on a duration-adjusted basis to better attribute the driver of the performance. As the asset and liability durations are not perfectly matched, the residual impact of the FTP methodology is captured in General Corporate and Other. The charge and credit rates are determined using the FTP rate curve, which is based on an estimate of Fifth Third's marginal borrowing cost in the wholesale funding markets. The FTP curve is constructed using the U.S. swap curve, brokered CD pricing and unsecured debt pricing.

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 behavioural assumptions, such as prepayment rates on interest-earning assets and the estimated durations for indeterminate-lived deposits. Key assumptions, including the credit rates provided for deposit accounts, are reviewed annually. Credit rates for deposit products and charge rates for loan products may be reset more frequently in response to changes in market conditions. 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 business segments 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 business segments during 2016.

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 years ended December 31, 2015 and 2014 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 years ended December 31, 2015 and 2014 were adjusted to reflect changes in internal expense allocation methodologies.

The following table summarizes net income (loss) by business segment:

**TABLE 19: NET INCOME (LOSS) BY BUSINESS SEGMENT**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Income Statement Data</b>			
Commercial Banking	\$ 995	718	884
Branch Banking	431	297	350
Consumer Lending	20	111	(69)
Wealth and Asset Management	93	58	58
General Corporate and Other	21	522	260
Net income	1,560	1,706	1,483
Less: Net income attributable to noncontrolling interests	(4)	(6)	2
Net income attributable to Bancorp	1,564	1,712	1,481
Dividends on preferred stock	75	75	67
Net income available to common shareholders	\$ 1,489	1,637	1,414

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**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 20: COMMERCIAL BANKING**

For the years ended December 31 (\$ in millions)

	2016	2015	2014
<b>Income Statement Data</b>			
Net interest income (FTE) <sup>(a)</sup>	\$ 1,839	1,646	1,648
Provision for loan and lease losses	76	298	141
Noninterest income:			
Corporate banking revenue	430	378	429
Service charges on deposits	292	284	280
Other noninterest income	185	191	171
Noninterest expense:			
Personnel costs	296	303	304
Other noninterest expense	1,130	1,066	977
Income before income taxes (FTE)	1,244	832	1,106
Applicable income tax expense <sup>(a)(b)</sup>	249	114	222
Net income	\$ 995	718	884
<b>Average Balance Sheet Data</b>			
Commercial loans and leases, including held for sale	\$ 54,597	53,010	50,718
Demand deposits	20,735	20,677	18,381
Interest checking deposits	8,582	9,069	7,995
Savings and money market deposits	6,686	6,652	5,792
Other time deposits and certificates \$100,000 and over	1,046	1,230	1,399
Foreign office deposits	496	813	1,817

(a) Includes FTE adjustments of \$25 for the year ended December 31, 2016 and \$21 for both the years ended December 31, 2015 and 2014.

(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.

*Comparison of the year ended 2016 with 2015*

Net income was \$995 million for the year ended December 31, 2016 compared to net income of \$718 million for the year ended December 31, 2015. The increase in net income was driven by increases in net interest income and noninterest income and a decrease in the provision for loan and lease losses partially offset by an increase in noninterest expense.

Net interest income on an FTE basis increased \$193 million from the year ended December 31, 2015 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 17 bps for the year ended December 31, 2016 compared to the prior year. These increases in net interest income for the year ended December 31, 2016 were partially offset by an increase in FTP charge rates on loans and leases.

Provision for loan and lease losses decreased \$222 million from the year ended December 31, 2015. The decrease was primarily due to a decrease in criticized commercial loans during the year ended December 31, 2016 as well as 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. Net charge-offs as a percent of average portfolio loans and leases decreased to 33 bps for the year ended December 31, 2016 compared to 45 bps for the year ended December 31, 2015.

Noninterest income increased \$54 million from the year ended December 31, 2015 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 letter of credit fees and foreign exchange fees.

Noninterest expense increased \$57 million from the year ended December 31, 2015 primarily as a result of an increase in other noninterest expense. The increase in other noninterest expense was

primarily driven by increases in corporate overhead allocations, impairment on affordable housing investments and operating lease expense partially offset by a decrease in loan and lease expense.

Average commercial loans increased \$1.6 billion from the year ended December 31, 2015 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 \$657 million from the year ended December 31, 2015 primarily as a result of an increase in new origination activity resulting from an increase in demand and line utilization in the first half of the year. Average commercial construction loans increased \$926 million from the year ended December 31, 2015 primarily as a result of increased demand and draw levels continuing to outpace attrition. Average commercial leases increased \$121 million from the year ended December 31, 2015 primarily as a result of an increase in syndication and participation origination activity. Average commercial mortgage loans decreased \$117 million from the year ended December 31, 2015 primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

Average core deposits decreased \$717 million from the year ended December 31, 2015. The decrease was primarily driven by decreases in average interest checking deposits and average foreign deposits which decreased \$487 million and \$317 million, respectively, from the year ended December 31, 2015.

*Comparison of the year ended 2015 with 2014*

Net income was \$718 million for the year ended December 31, 2015 compared to net income of \$884 million for the year ended December 31, 2014. The decrease in net income was the result of

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increases in the provision for loan and leases losses and noninterest expense coupled with a decrease in noninterest income.

Net interest income decreased \$2 million from the year ended December 31, 2014 primarily driven by a decline in yields of 19 bps on average commercial loans and leases and increases in FTP charges on loans and leases driven by an increase in average balances. These decreases for the year ended December 31, 2015 were partially offset by increases in FTP credits on core deposits driven by increases in average balances.

Provision for loan and lease losses increased \$157 million from the year ended December 31, 2014 primarily due to an increase in criticized commercial loans. The increase also included 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. The year ended December 31, 2014 included net charge-offs related to certain impaired commercial and industrial loans in the first and third quarters of 2014. Net charge-offs as a percent of average portfolio loans and leases decreased to 45 bps for the year ended December 31, 2015 compared to 46 bps for the year ended December 31, 2014.

Noninterest income decreased \$27 million from the year ended December 31, 2014 due primarily to a decrease in corporate banking revenue partially offset by an increase in other noninterest income. Corporate banking revenue decreased \$51 million from the year ended December 31, 2015 primarily driven by decreases in syndication fees and lease remarketing fees. The decrease in syndication fees was the result of decreased activity in the market and the Bancorp's reduced leveraged loan appetite. The decrease in lease remarketing fees included the impact of impairment charges of \$36 million related to certain operating lease equipment that was recognized during the year ended December 31, 2015. Refer to Note 8 of the Notes to Consolidated Financial Statements for additional information. The decrease in corporate banking revenue for the year ended December 31, 2015 was partially offset by higher institutional sales revenue. Other noninterest income increased \$20 million from the year ended December 31, 2015 primarily driven by increases in gains on loan sales.

Noninterest expense increased \$88 million from the year ended December 31, 2014 driven by an increase in other noninterest expense. The increase in other noninterest expense was primarily driven by increases in corporate overhead allocations, operating lease expense and impairment on affordable housing investments.

Average commercial loans increased \$2.3 billion from the year ended December 31, 2014 primarily due to increases in average commercial and industrial loans and average commercial construction loans partially offset by a decrease in average commercial mortgage loans. Average commercial and industrial loans and average commercial construction loans increased \$1.4 billion and \$1.2 billion, respectively, from the year ended December 31, 2014 primarily as a result of an increase in new loan origination activity resulting from an increase in demand and targeted marketing efforts. Average commercial mortgage loans decreased \$552 million from the year ended December 31, 2014 primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

Average core deposits increased \$3.2 billion from the year ended December 31, 2014. The increase was the result of growth in average demand deposits, average interest checking deposits and average savings and money market deposits which increased \$2.3 billion, \$1.1 billion and \$860 million, respectively, from the year ended December 31, 2014. The increase was partially offset by a decrease in average foreign deposits of \$1.0 billion from the year ended December 31, 2014.

### ***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.

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

**TABLE 21: BRANCH BANKING**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Income Statement Data</b>			
Net interest income	\$ 1,669	1,555	1,573
Provision for loan and lease losses	138	151	171
Noninterest income:			
Service charges on deposits	265	277	278
Card and processing revenue	253	236	227
Wealth and asset management revenue	140	157	152
Other noninterest income	97	(18)	69
Noninterest expense:			
Personnel costs	520	524	539
Net occupancy and equipment expense	234	248	246
Card and processing expense	128	145	133
Other noninterest expense	739	681	669
Income before income taxes	665	458	541
Applicable income tax expense	234	161	191
Net income	\$ 431	297	350
<b>Average Balance Sheet Data</b>			
Consumer loans, including held for sale	\$ 13,572	14,374	14,978
Commercial loans, including held for sale	1,870	2,021	2,175
Demand deposits	13,332	12,715	11,781
Interest checking deposits	9,659	9,128	9,071
Savings and money market deposits	25,974	25,342	24,065
Other time deposits and certificates \$100,000 and over	5,205	5,161	4,690

*Comparison of the year ended 2016 with 2015*

Net income was \$431 million for the year ended December 31, 2016 compared to net income of \$297 million for the year ended December 31, 2015. 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 \$114 million from the year ended December 31, 2015 primarily driven by an increase in the benefits from FTP credits 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 was negatively impacted by an increase in FTP charge rates on loans and leases.

Provision for loan and lease losses decreased \$13 million from the year ended December 31, 2015 primarily due to improved credit trends. Net charge-offs as a percent of average portfolio loans and leases decreased to 91 bps for the year ended December 31, 2016 compared to 96 bps for the year ended December 31, 2015.

Noninterest income increased \$103 million from the year ended December 31, 2015. The increase for the year ended December 31, 2016 was driven by an increase in other noninterest income of \$115 million primarily due to impairment charges on bank premises and equipment of \$32 million recognized during the year ended December 31, 2016 compared to \$109 million recognized during the year ended December 31, 2015. Additionally, the increase in other noninterest income for the year ended December 31, 2016 included a gain of \$19 million on the sale of certain retail branch operations in the St. Louis and Pittsburgh MSAs in the first and second quarters of 2016, respectively, 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 increased \$23 million from the year ended December 31, 2015 primarily driven by an increase in other noninterest expense partially offset by decreases in card and processing expense and net occupancy and equipment expense.

Other noninterest expense increased \$58 million from the year ended December 31, 2015 primarily driven by an increase in corporate overhead allocations. Card and processing expense decreased \$17 million from the year ended December 31, 2015 primarily due to the impact of renegotiated service contracts. Net occupancy and equipment expense decreased \$14 million from the year ended December 31, 2015 primarily due to a decrease in rent expense driven by a reduction in the number of full-service banking centers and ATM locations.

Average consumer loans decreased \$802 million from the year ended December 31, 2015 primarily driven by a decrease in average home equity loans and average residential mortgage loans of \$488 million and \$262 million, respectively, as payoffs exceeded new loan production. Average commercial loans decreased \$151 million from the year ended December 31, 2015 primarily due to a decrease in average commercial mortgage loans and average commercial and industrial loans of \$100 million and \$46 million, respectively, as payoffs exceeded new loan production.

Average core deposits increased \$1.7 billion from the year ended December 31, 2015 primarily driven by growth in average savings and money market deposits of \$632 million, growth in average demand deposits of \$617 million and growth in average interest checking deposits of \$531 million. The growth in average savings and money market deposits, average demand deposits and average interest checking deposits was driven by an increase in average balances per customer account and acquisition of new customers.

*Comparison of the year ended 2015 with 2014*

Net income was \$297 million for the year ended December 31, 2015 compared to net income of \$350 million for the year ended December 31, 2014. The decrease was driven by decreases in noninterest income and net interest income as well as an increase in noninterest expense partially offset by a decrease in the provision for loan and lease losses.

Net interest income decreased \$18 million from the year ended December 31, 2014 primarily driven by changes made to the

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Bancorp's deposit advance product beginning January 1, 2015 and a decline in interest income on home equity loans and residential mortgage loans driven by decreases in average balances partially offset by a decrease in FTP charges due to the decrease in these average balances. The decline in net interest income was partially offset by a decrease in interest expense on core deposits due to a decline in the rates paid and by increases in the benefits from FTP credits for demand deposits, other time deposits and interest checking deposits.

Provision for loan and lease losses decreased \$20 million from the year ended December 31, 2014 primarily due to improved credit trends. Net charge-offs as a percent of average portfolio loans and leases decreased to 96 bps for the year ended December 31, 2015 compared to 106 bps for the year ended December 31, 2014.

Noninterest income decreased \$74 million from the year ended December 31, 2014. The decrease was primarily driven by decreases in other noninterest income partially offset by increases in card and processing revenue and wealth and asset management revenue. Other noninterest income decreased \$87 million from the year ended December 31, 2014 primarily driven by impairment charges on bank premises and equipment of \$109 million for the year ended December 31, 2015 compared to \$20 million for the year ended December 31, 2014. Card and processing revenue increased \$9 million from the year ended December 31, 2014 primarily due to an increase in the number of actively used cards and an increase in customer spend volume. Wealth and asset management revenue increased \$5 million from the year ended December 31, 2014 primarily due to an increase of \$3 million in recurring securities brokerage fees driven by higher sales volume and an increase of \$2 million in private client service fees due to an increase in personal asset management fees.

Noninterest expense increased \$11 million from the year ended December 31, 2014 primarily driven by increases in other noninterest expense and card and processing expense partially offset by a decrease in personnel costs. Other noninterest expense increased \$12 million from the year ended December 31, 2014 due

to higher operational losses and an increase in corporate overhead allocations. Card and processing expense increased \$12 million from the year ended December 31, 2014 driven by increased fraud prevention related expenses. Personnel costs decreased \$15 million from the year ended December 31, 2014 driven by a decrease in employee benefits expense due to changes in the Bancorp's employee benefit plan implemented in 2015 as well as a decrease in base compensation due to a decline in the number of full-time equivalent employees.

Average consumer loans decreased \$604 million from the year ended December 31, 2014 primarily due to a decrease in average home equity loans and average residential mortgage loans of \$336 million and \$261 million, respectively, as payoffs exceeded new loan production. Average commercial loans decreased \$154 million from the year ended December 31, 2014 primarily due to a decrease in average commercial mortgage loans and average commercial and industrial loans of \$97 million and \$63 million, respectively, as payoffs exceeded new loan production.

Average core deposits increased \$2.6 billion from the year ended December 31, 2014 primarily driven by growth in average savings and money market deposits of \$1.3 billion and growth in average demand deposits of \$934 million. The growth in average savings and money market deposits was driven by a promotional product offering and the growth in average demand deposits was driven by an increase in average account balances.

***Consumer Lending***

Consumer Lending includes the Bancorp's 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.

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

**TABLE 22: CONSUMER LENDING**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Income Statement Data</b>			
Net interest income	\$ 248	249	258
Provision for loan and lease losses	44	44	156
Noninterest income:			
Mortgage banking net revenue	277	341	305
Other noninterest income	26	66	45
Noninterest expense:			
Personnel costs	195	185	181
Other noninterest expense	280	255	377
Income (loss) before income taxes	32	172	(106)
Applicable income tax expense (benefit)	12	61	(37)
Net income (loss)	\$ 20	111	(69)
<b>Average Balance Sheet Data</b>			
Residential mortgage loans, including held for sale	\$ 10,530	9,251	8,866
Home equity	356	424	496
Automobile loans	10,172	11,341	11,517
Other consumer loans and leases, including held for sale	-	11	19

*Comparison of the year ended 2016 with 2015*

Net income was \$20 million for the year ended December 31, 2016 compared to net income of \$111 million for the year ended December 31, 2015. The decrease was driven by a decrease in noninterest income and an increase in noninterest expense.

Net interest income decreased \$1 million from the year ended December 31, 2015 primarily driven by an increase in FTP charges on loans and leases partially offset by an increase in FTP credit rates on demand deposits. Net interest income was also impacted by an increase in average residential mortgage loan balances partially offset by a decline in average automobile loan balances.



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The provision for loan and lease losses was flat from the year ended December 31, 2015. Net charge-offs as a percent of average portfolio loans and leases was 22 bps for both the years ended December 31, 2016 and 2015.

Noninterest income decreased \$104 million from the year ended December 31, 2015 driven by decreases in mortgage banking net revenue and other noninterest income. Mortgage banking net revenue decreased \$64 million from the year ended December 31, 2015 primarily driven by a \$79 million decrease in net mortgage servicing revenue partially offset by a \$15 million increase in mortgage origination fees and gains on loan sales. Refer to the Noninterest Income subsection of the Statements of Income Analysis section of MD&A for additional information on the fluctuations in mortgage banking net revenue. Other noninterest income decreased \$40 million from the year ended December 31, 2015 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 \$35 million from the year ended December 31, 2015 driven by increases in other noninterest expense and personnel costs. Other noninterest expense increased \$25 million from the year ended December 31, 2015 primarily driven by increases in operational losses and corporate overhead allocations. Personnel costs increased \$10 million from the year ended December 31, 2015 primarily driven by increases in base compensation and variable compensation.

Average consumer loans and leases increased \$31 million from the year ended December 31, 2015. Average residential mortgage loans, including held for sale, increased \$1.3 billion from the year ended December 31, 2015 primarily driven by the continued retention of certain agency conforming ARMs and certain other fixed-rate loans. Average automobile loans decreased \$1.2 billion from the year ended December 31, 2015 as payoffs exceeded new loan production.

### *Comparison of the year ended 2015 with 2014*

Net income was \$111 million for the year ended December 31, 2015 compared to a net loss of \$69 million for the year ended December 31, 2014. The increase was driven by decreases in noninterest expense and the provision for loan and lease losses as well as an increase in noninterest income partially offset by a decrease in net interest income.

Net interest income decreased \$9 million from the year ended December 31, 2014 primarily driven by lower yields on average residential mortgage loans and average automobile loans and a decline in average home equity loans partially offset by decreases in FTP charge rates on loans and leases.

The provision for loan and lease losses decreased \$112 million from the year ended December 31, 2014 as the prior year included

an \$87 million charge-off related to the transfer of certain residential mortgage loans from the portfolio to held for sale in the fourth quarter of 2014. The decrease was also due to improved delinquency metrics on residential mortgage loans and home equity loans. Net charge-offs as a percent of average portfolio loans and leases decreased to 22 bps for the year ended December 31, 2015 compared to 77 bps for the year ended December 31, 2014.

Noninterest income increased \$57 million from the year ended December 31, 2014 as a result of increases in mortgage banking net revenue and other noninterest income. Mortgage banking net revenue increased \$36 million from the year ended December 31, 2014 driven by a \$16 million increase in mortgage origination fees and gains on loan sales and a \$20 million increase in net mortgage servicing revenue. Other noninterest income increased \$21 million from the year ended December 31, 2014 primarily driven by a \$37 million gain on the sale of residential mortgage loans held for sale classified as TDRs in the first quarter of 2015. This increase was partially offset by a decrease in retail service fees.

Noninterest expense decreased \$118 million from the year ended December 31, 2014 driven by a decrease in other noninterest expense of \$122 million. The decrease in other noninterest expense was primarily due to decreased legal expenses and operational losses partially offset by an increase in corporate overhead allocations.

Average consumer loans and leases increased \$129 million from the year ended December 31, 2014. Average residential mortgage loans increased \$385 million from the year ended December 31, 2014 primarily due to the continued retention of certain agency conforming ARMs and certain other fixed-rate loans. Average automobile loans and average home equity loans decreased \$176 million and \$72 million, respectively, from the year ended December 31, 2014 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following table contains selected financial data for the Wealth and Asset Management segment:

**TABLE 23: WEALTH AND ASSET MANAGEMENT**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Income Statement Data</b>			
Net interest income	\$ 168	128	121
Provision for loan and lease losses	1	3	1
Noninterest income:			
Wealth and asset management revenue	391	406	397
Other noninterest income	8	12	13
Noninterest expense:			
Personnel costs	168	170	162
Other noninterest expense	254	285	281
Income before income taxes	144	88	87
Applicable income tax expense	51	30	29
Net income	\$ 93	58	58
<b>Average Balance Sheet Data</b>			
Loans and leases, including held for sale	\$ 3,135	2,805	2,270
Core deposits	8,554	9,357	9,535

*Comparison of the year ended 2016 with 2015*

Net income was \$93 million for the year ended December 31, 2016 compared to net income of \$58 million for the year ended December 31, 2015. The increase in net income was primarily driven by an increase in net interest income as well as a decrease in noninterest expense partially offset by a decrease in noninterest income.

Net interest income increased \$40 million from the year ended December 31, 2015 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 on average residential mortgage loans and average other consumer loans and leases as well as higher yields on average commercial and industrial loans and average other consumer loans and leases. This increase was partially offset by an increase in FTP charges on loans and leases driven by an increase in average balances.

Provision for loan and leases losses decreased \$2 million from the year ended December 31, 2015.

Noninterest income decreased \$19 million from the year ended December 31, 2015 primarily due to a \$15 million decrease in wealth and asset management revenue driven by a \$15 million decrease in securities and brokerage fees as a result of lower transactional fees partially offset by an increase in managed account fee-based business.

Noninterest expense decreased \$33 million from the year ended December 31, 2015 primarily driven by a \$31 million decrease in other noninterest expense primarily due to a decrease in corporate overhead allocations partially offset by an increase in operational losses.

Average loans and leases increased \$330 million from the year ended December 31, 2015 primarily due to increases in average residential mortgage loans and average other consumer loans driven by increases in new loan origination activity.

Average core deposits decreased \$803 million from the year ended December 31, 2015 primarily due to a decline in average interest checking balances partially offset by an increase in average savings and money market deposits.

*Comparison of the year ended 2015 with 2014*

Net income was \$58 million for both the years ended December 31, 2015 and 2014.

Net interest income increased \$7 million from the year ended December 31, 2014 primarily due to increases in interest income on loans and leases and FTP credits on demand deposits both due to increases in average balances as well as an increase in FTP credits on

interest checking deposits due to an increase in FTP credit rates. These increases were partially offset by increases in FTP charges on loans and leases driven by increases in average balances.

Provision for loan and leases losses increased \$2 million from the year ended December 31, 2015.

Noninterest income increased \$8 million from the year ended December 31, 2014 primarily due to a \$9 million increase in wealth and asset management revenue driven by increases in recurring securities brokerage fees and private client service fees.

Noninterest expense increased \$12 million from the year ended December 31, 2014 primarily due to an increase in personnel costs due to higher incentive compensation and base compensation.

Average loans and leases increased \$535 million from the year ended December 31, 2014 primarily driven by increases in average residential mortgage loans and average other consumer loans as a result of increases in new loan origination activity partially offset by a decrease in average home equity loans as payoffs exceeded new loan production.

Average core deposits decreased \$178 million from the year ended December 31, 2014 primarily due to a decrease in average interest checking balances partially offset by increases in average savings and money market deposits and average demand 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.

*Comparison of the year ended 2016 with 2015*

Net interest income decreased \$260 million from the year ended December 31, 2015 primarily driven by an increase in FTP credits on deposits allocated to business segments primarily due to an increase in FTP credit rates as well as an increase in interest expense on long-term debt. This decrease in net interest income was 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 leases losses was \$84 million for the year ended December 31, 2016 compared to a benefit of \$100 million for the year ended December 31, 2015 primarily due to decreases in the allocation of provision expense to the business segments.

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Noninterest income decreased \$359 million from December 31, 2015. The decrease included the impact of a gain of \$331 million on the sale of Vantiv, Inc. shares and a gain of \$89 million on both the sale and exercise of a portion of the warrant associated with Vantiv Holding, LLC, both of which were recognized in the fourth quarter of 2015. In 2016, the Bancorp recognized a gain of \$9 million on the exercise of the remaining warrant with Vantiv Holding, LLC. The decrease was also due to the negative valuation adjustment related to the Visa total return swap of \$56 million for the year ended December 31, 2016 compared with \$37 million for the prior year. In addition, the positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC were \$64 million for the year ended December 31, 2016 compared to the positive valuation adjustments of \$236 million during the year ended December 31, 2015. The decrease in noninterest income was partially offset by 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 compared with a \$49 million gain recognized by the Bancorp in 2015 for the payment from Vantiv, Inc. to terminate a portion of the Vantiv, Inc. TRA. Noninterest income for the year ended December 31, 2016 also included a gain of \$11 million on the sale-leaseback of an office complex during the third quarter of 2016 and a gain of \$33 million associated with the annual TRA payment during the fourth quarter of 2016 compared to a \$31 million gain during the prior year. Additionally, equity method earnings from the Bancorp's interest in Vantiv Holding, LLC increased \$3 million from December 31, 2015.

Noninterest expense was \$90 million and \$62 million for the years ended December 31, 2016 and 2015, respectively. The increase 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.

### *Comparison of the year ended 2015 with 2014*

Net interest income decreased \$24 million from the year ended December 31, 2014 primarily due to increases in FTP credits on deposits allocated to business segments driven by increases in average deposits. The remaining decrease in net interest income was

due to an increase in interest expense on long-term debt and a decrease in the benefit related to the FTP charges on loans and leases partially offset by an increase in interest income on taxable securities. The provision for loan and leases losses was a benefit of \$100 million for the year ended December 31, 2015 compared to a benefit of \$154 million for the year ended December 31, 2014 due to decreases in the allocation of provision expense to the business segments and reductions in the ALLL.

Noninterest income was \$822 million for the year ended December 31, 2015 compared to \$253 million for the year ended December 31, 2014. The increase in noninterest income included the impact of a gain of \$331 million on the sale of Vantiv, Inc. shares in the fourth quarter of 2015 compared to a gain of \$125 million in 2014. The positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC were \$236 million and \$31 million for the years ended December 31, 2015 and 2014, respectively. During the fourth quarter of 2015, the Bancorp recognized a gain of \$89 million on both the sale and exercise of a portion of the warrant associated with Vantiv Holding, LLC. Additionally, the Bancorp recognized a gain of \$49 million from the payment from Vantiv, Inc. to terminate a portion of a TRA and also recognized a gain of \$31 million associated with the annual TRA payment during the fourth quarter of 2015. The Bancorp recognized a gain of \$23 million associated with the TRA during the fourth quarter of 2014. Equity method earnings from the Bancorp's interest in Vantiv Holding, LLC increased \$15 million from the year ended December 31, 2014. Noninterest income also included \$37 million in negative valuation adjustments related to the Visa total return swap for the year ended December 31, 2015 compared to \$38 million for the year ended December 31, 2014.

Noninterest expense for the year ended December 31, 2015 was an expense of \$62 million compared to a benefit of \$14 million for the year ended December 31, 2014. The increase was primarily due to an increase in personnel costs and an increase in the provision for the reserve for unfunded commitments as well as increases in FDIC insurance and other taxes, donations expense, technology and communications expense and marketing expense. The increase was partially offset by decreased litigation and regulatory activity and increased corporate overhead allocations from General Corporate and Other to the other business segments.

## FOURTH QUARTER REVIEW

The Bancorp's 2016 fourth quarter net income available to common shareholders was \$372 million, or \$0.49 per diluted share, compared to net income available to common shareholders of \$501 million, or \$0.65 per diluted share, for the third quarter of 2016 and net income available to common shareholders of \$634 million, or \$0.79 per diluted share, for the fourth quarter of 2015.

Net interest income on an FTE basis was \$909 million during the fourth quarter of 2016 and decreased \$4 million from the third quarter of 2016 and increased \$5 million from the fourth quarter of 2015. The decrease from the third quarter of 2016 was primarily driven by the impact of refunds to be offered to certain bankcard customers during the fourth quarter of 2016, partially offset by increased short-term market rates and higher investment securities balances. The increase in net interest income in comparison to the fourth quarter of 2015 was driven by higher investment securities balances and increased short-term market rates, partially offset by the aforementioned bankcard refunds.

Fourth quarter 2016 noninterest income of \$620 million decreased \$220 million compared to the third quarter of 2016 and decreased \$484 million compared to the fourth quarter of 2015. The decrease from the third quarter of 2016 was primarily due to a decrease in other noninterest income and corporate banking revenue. The year-over-year decrease was primarily the result of decreases in other noninterest income and mortgage banking net revenue.

Service charges on deposits of \$141 million decreased \$2 million from the previous quarter and decreased \$3 million compared to the fourth quarter of 2015. The decrease from the third quarter of 2016 was primarily due to a decrease in commercial service charges and retail service charges. The decrease from the fourth quarter of 2015 was driven by a decrease in retail service charges due to lower consumer checking fees.

Corporate banking revenue of \$101 million decreased \$10 million compared to the previous quarter and decreased \$3 million from the fourth quarter of 2015. The decrease compared to the third quarter was driven by decreases in institutional sales revenue and lease remarketing fees, partially offset by an increase in foreign exchange fees. The year-over-year decrease was driven by lower lease remarketing fees and letter of credit fees, partially offset by higher foreign exchange fees and institutional sales revenue.

Mortgage banking net revenue was \$65 million in the fourth quarter of 2016 compared to \$66 million in the third quarter of 2016 and \$74 million in the fourth quarter of 2015. The decrease in mortgage banking net revenue compared to the third quarter of 2016 was driven by lower production gains, partially offset by positive valuation adjustments. The decrease from the prior year was due to lower margins during the fourth quarter of 2016. Fourth quarter 2016 originations were \$2.7 billion, compared with \$2.9 billion in the previous quarter and \$1.8 billion in the fourth quarter of 2015. Fourth quarter 2016 originations resulted in gains of \$30 million on mortgages sold, compared with gains of \$61 million during the previous quarter and \$37 million during the fourth quarter of 2015. Gross mortgage servicing fees were \$48 million in the fourth quarter of 2016, \$49 million in the third quarter of 2016 and \$53 million in the fourth quarter of 2015. Mortgage banking net revenue is also affected by net servicing asset valuation adjustments, which include MSR amortization and MSR valuation adjustments, including mark-to-market adjustments on free-standing derivatives used to economically hedge the MSR portfolio. MSR amortization was \$35 million during both the fourth and third quarters of 2016, compared to \$29 million during the fourth quarter of 2015. Net servicing asset valuation adjustments were positive \$23 million and negative \$9 million in the fourth and third quarters of 2016, respectively, and positive \$13 million in the fourth quarter of 2015.

Wealth and asset management revenue of \$100 million decreased \$1 million from the previous quarter and decreased \$2 million from the fourth quarter of 2015. The decline from the third quarter of 2016 was due to a decrease in private client service fees. The year-over-year decrease was due to a decrease in securities and brokerage fees.

Card and processing revenue of \$79 million was flat compared to the third quarter of 2016 and increased \$2 million compared to the fourth quarter of 2015. The increase from the prior year was driven by an increase in the number of actively used cards and an increase in customer spend volume.

Other noninterest income of \$137 million decreased \$199 million compared to the third quarter of 2016 and decreased \$465 million from the fourth quarter of 2015. Fourth quarter of 2016 results included a gain of \$9 million on the exercise of the remaining warrant in Vantiv Holding, LLC and a \$33 million gain pursuant to Fifth Third's TRA with Vantiv, Inc. Third quarter of 2016 results included a \$280 million gain from the termination and settlement of certain gross cash flows from the existing Vantiv, Inc. TRA and the expected obligation to terminate and settle certain remaining Vantiv, Inc. TRA cash flows upon the exercise of put or call options and a gain of \$11 million on the sale-leaseback of an office complex, partially offset by \$28 million in losses on disposition and impairment of bank premises and equipment and the recognition of \$9 million of OTTI on certain private equity investments. Fourth quarter 2015 results included a \$331 million gain on the sale of Vantiv, Inc. shares, an \$89 million gain on both the sale and exercise of a portion of the warrant associated with Vantiv, Holding, LLC, a \$49 million gain from a payment received from Vantiv, Inc. to terminate a portion of the TRA and a \$31 million gain pursuant to Fifth Third's TRA with Vantiv, Inc. Fourth quarter of 2015 also included a positive warrant valuation adjustment of \$21 million compared to a negative warrant valuation adjustment of \$2 million during the third quarter of 2016. Quarterly results also included valuation adjustments on the Visa total return swap which was a benefit of \$6 million in the fourth quarter of 2016 and a charge of \$12 million and \$10 million in the third quarter of 2016 and the fourth quarter of 2015, respectively.

The net losses on investment securities were \$3 million in the fourth quarter of 2016 compared to net gains of \$4 million in the third quarter of 2016 and \$1 million in the fourth quarter of 2015.

Noninterest expense of \$960 million decreased \$13 million from the previous quarter and decreased \$3 million from the fourth quarter of 2015. The decrease in noninterest expense compared to the third quarter of 2016 was driven by lower technology and communications expense and seasonally lower marketing expense. The decrease in noninterest expense from the fourth quarter of 2015 was primarily due to lower card and processing expense due to the impact of renegotiated service contracts and lower net occupancy expense due to a decrease in rent expense driven by a reduction in the number of full-service banking centers and ATM locations, partially offset by higher personnel costs.

The ALLL as a percentage of portfolio loans and leases was 1.36% as of December 31, 2016, compared to 1.37% as of both September 30, 2016 and December 31, 2015. The provision for loan and lease losses was \$54 million in the fourth quarter of 2016 compared to \$80 million in the third quarter of 2016 and \$91 million in the fourth quarter of 2015. Net charge-offs were \$73 million in the fourth quarter of 2016, or 31 bps of average portfolio loans and leases on an annualized basis, compared with net charge-offs of \$107 million in the third quarter of 2016 and \$80 million in the fourth quarter of 2015.

TABLE 24: QUARTERLY INFORMATION (unaudited)

For the three months ended (\$ in millions, except per share data)	2016				2015			
	12/31	9/30 <sup>(a)</sup>	6/30 <sup>(a)</sup>	3/31 <sup>(a)</sup>	12/31	9/30	6/30	3/31
Net interest income <sup>(a)(b)</sup>	\$ 909	913	908	909	904	906	892	852
Provision for loan and lease losses	54	80	91	119	91	156	79	69
Noninterest income	620	840	599	637	1,104	713	556	630
Noninterest expense	960	973	983	986	963	943	947	923
Net income attributable to Bancorp	395	516	328	326	657	381	315	361
Net income available to common shareholders	372	501	305	311	634	366	292	346
Earnings per share, basic	0.49	0.66	0.40	0.40	0.80	0.46	0.36	0.42
Earnings per share, diluted	0.49	0.65	0.39	0.40	0.79	0.45	0.36	0.42

(a) Amounts presented on an FTE basis. The FTE adjustment was \$6 and \$5 for each period presented during the years ended December 31, 2016 and 2015, respectively.

(b) Net tax deficiencies of \$1 million, \$5 million and \$0 were reclassified from capital surplus to applicable income tax expense at March 31, 2016, June 30, 2016 and September 30, 2016, respectively, related to the early adoption of ASU 2016-09 during the fourth quarter of 2016, with an effective date of January 1, 2016.

#### COMPARISON OF THE YEAR ENDED 2015 WITH 2014

The Bancorp's net income available to common shareholders for the year ended December 31, 2015 was \$1.6 billion, or \$2.01 per diluted share, which was net of \$75 million in preferred stock dividends. The Bancorp's net income available to common shareholders for the year ended December 31, 2014 was \$1.4 billion, or \$1.66 per diluted share, which was net of \$67 million in preferred stock dividends. The provision for loan and lease losses increased to \$396 million during the year ended December 31, 2015 compared to \$315 million during the year ended December 31, 2014 as the result of the restructuring of a student loan backed commercial credit originated in 2007, a broadening global economic slowdown, stress on capital markets and the prolonged softness in commodity prices. Net charge-offs as a percent of average portfolio loans and leases decreased to 0.48% during 2014 compared to 0.64% during the year ended December 31, 2014.

Net interest income on an FTE basis (non-GAAP) was \$3.6 billion for both of the years ended December 31, 2015 and 2014. For the year ended December 31, 2015, net interest income was negatively impacted by a decrease in the net interest rate spread, changes made to the Bancorp's deposit advance product beginning January 1, 2015 and an increase in average long-term debt of \$1.8 billion compared to the year ended December 31, 2014. These negative impacts were partially offset by increases in average taxable securities and average loans and leases of \$5.2 billion and \$2.2 billion, respectively for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Noninterest income increased \$530 million during the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to increases in other noninterest income and mortgage banking net revenue, partially offset by a decrease in corporate banking revenue. Other noninterest income increased \$529 million compared to the year ended December 31, 2014. The increase included the impact of a gain of \$331 million on the sale of Vantiv, Inc. shares in the fourth quarter of 2015, compared to a gain of \$125 million during the second quarter of 2014. Other noninterest income also increased for the year ended December 31, 2015 compared to 2014 due to positive valuation adjustments on the stock warrant associated with Vantiv Holding, LLC of \$236 million during 2015 compared to positive valuation adjustments of

\$31 million during 2014. During the fourth quarter of 2015, the Bancorp recognized a gain of \$89 million on both the sale and exercise of a portion of the warrant associated with Vantiv Holding, LLC. Additionally, the Bancorp recognized a gain of \$49 million from the payment from Vantiv, Inc. to terminate a portion of the TRA and also recognized a gain of \$31 million associated with the annual TRA payment during the fourth quarter of 2015. The Bancorp recognized a gain of \$23 million associated with the TRA during the fourth quarter of 2014. Mortgage banking net revenue increased \$38 million for the year ended December 31, 2015 compared to 2014 primarily due to increases in net mortgage servicing revenue and origination fees and gains on loan sales. Corporate banking revenue decreased \$46 million compared to the year ended December 31, 2014 primarily driven by decreases in syndication fees and lease remarketing fees.

Noninterest expense increased \$66 million during the year ended December 31, 2015 compared to 2014 primarily due to increases in total personnel costs, technology and communications expense and card and processing expense partially offset by a decrease in other noninterest expense. Personnel costs increased \$65 million for the year ended December 31, 2015 compared to the year ended December 31, 2014 driven by higher executive retirement and severance costs as well as an increase in base compensation and an increase in incentive compensation, primarily in the mortgage business. Technology and communications expense increased \$12 million for the year ended December 31, 2015 compared to the year ended December 31, 2014 driven primarily by increased investment in information technology associated with regulatory and compliance initiatives, system maintenance, and other growth initiatives. Card and processing expense increased \$12 million for the year ended December 31, 2015 compared to the year ended December 31, 2014 driven primarily by increased fraud prevention related expenses. Other noninterest expense decreased \$34 million for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to a decrease in losses and adjustments partially offset by increases in the provision for the reserve for unfunded commitments, marketing expense, donations expense, impairment on affordable housing investments, FDIC insurance and other taxes and operating lease expense.

**BALANCE SHEET ANALYSIS****Loans and Leases**

The Bancorp classifies its commercial loans and leases based upon their primary purpose and consumer loans and leases based upon product or collateral. Table 25 summarizes end of period loans and

leases, including loans held for sale and Table 26 summarizes average total loans and leases, including loans held for sale.

**TABLE 25: COMPONENTS OF TOTAL LOANS AND LEASES (INCLUDING LOANS HELD FOR SALE)**

As of December 31 (\$ in millions)	2016	2015	2014	2013	2012
Commercial loans and leases:					
Commercial and industrial loans	\$ 41,736	42,151	40,801	39,347	36,077
Commercial mortgage loans	6,904	6,991	7,410	8,069	9,116
Commercial construction loans	3,903	3,214	2,071	1,041	707
Commercial leases	3,974	3,854	3,721	3,626	3,549
Total commercial loans and leases	56,517	56,210	54,003	52,083	49,449
Consumer loans and leases:					
Residential mortgage loans	15,737	14,424	13,582	13,570	14,873
Home equity	7,695	8,336	8,886	9,246	10,018
Automobile loans	9,983	11,497	12,037	11,984	11,972
Credit card	2,237	2,360	2,401	2,294	2,097
Other consumer loans and leases	680	658	436	381	312
Total consumer loans and leases	36,332	37,275	37,342	37,475	39,272
Total loans and leases	\$ 92,849	93,485	91,345	89,558	88,721
Total portfolio loans and leases (excluding loans held for sale)	\$ 92,098	92,582	90,084	88,614	85,782

Loans and leases, including loans held for sale, decreased \$636 million, or 1%, from December 31, 2015. The decrease from December 31, 2015 was the result of a \$943 million, or 3%, decrease in consumer loans and leases, partially offset by a \$307 million, or 1%, increase in commercial loans and leases.

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 \$1.5 billion, or 13%, from December 31, 2015 and home equity decreased \$641 million, or 8%, from December 31, 2015 as payoffs exceeded new loan production. Credit card decreased \$123 million, or 5%, from December 31, 2015 primarily due to the sale of the agent bankcard loan portfolio during the second quarter of 2016 and a decrease in the average balance per active customer. Residential mortgage loans increased \$1.3 billion, or 9%, from December 31, 2015 primarily due to the continued retention of certain agency conforming ARMs and certain other fixed-rate loans originated during the year ended December 31, 2016.

Commercial loans and leases increased from December 31, 2015 primarily due to increases in commercial construction loans and commercial leases, partially offset by decreases in commercial and industrial loans and commercial mortgage loans. Commercial construction loans increased \$689 million, or 21%, from December 31, 2015 primarily as a result of increased demand and draw levels continuing to outpace attrition. Commercial leases increased \$120 million, or 3%, from December 31, 2015 primarily as a result of an increase in syndication and participation origination activity. Commercial and industrial loans decreased \$415 million, or 1%, from December 31, 2015 primarily as a result of a decline in new origination activity due to increased competition and an increase in attrition from deliberate credit exits in the second half of the year. Commercial mortgage loans decreased \$87 million, or 1%, from December 31, 2015 primarily due to a decline in new loan origination activity driven by increased competition and an increase in paydowns.

**TABLE 26: COMPONENTS OF TOTAL AVERAGE LOANS AND LEASES (INCLUDING LOANS HELD FOR SALE)**

For the years ended December 31 (\$ in millions)	2016	2015	2014	2013	2012
Commercial loans and leases:					
Commercial and industrial loans	\$ 43,184	42,594	41,178	37,770	32,911
Commercial mortgage loans	6,899	7,121	7,745	8,481	9,686
Commercial construction loans	3,648	2,717	1,492	793	835
Commercial leases	3,916	3,796	3,585	3,565	3,502
Total average commercial loans and leases	57,647	56,228	54,000	50,609	46,934
Consumer loans and leases:					
Residential mortgage loans	15,101	13,798	13,344	14,428	13,370
Home equity	7,998	8,592	9,059	9,554	10,369
Automobile loans	10,708	11,847	12,068	12,021	11,849
Credit card	2,205	2,303	2,271	2,121	1,960
Other consumer loans and leases	661	571	385	360	340
Total average consumer loans and leases	36,673	37,111	37,127	38,484	37,888
Total average loans and leases	\$ 94,320	93,339	91,127	89,093	84,822
Total average portfolio loans and leases (excluding loans held for sale)	\$ 93,426	92,423	90,485	86,950	82,733

Average loans and leases, including loans held for sale, increased \$981 million, or 1%, from December 31, 2015 as a result of a \$1.4 billion, or 3%, increase in average commercial loans and leases,

partially offset by a \$438 million, or 1%, decrease in average consumer loans and leases.

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Average commercial loans and leases increased from December 31, 2015 primarily due to increases in average commercial construction loans, average commercial and industrial loans and average commercial leases, partially offset by a decrease in average commercial mortgage loans. Average commercial construction loans increased \$931 million, or 34%, from December 31, 2015 primarily as a result of increased demand and draw levels continuing to outpace attrition. Average commercial and industrial loans increased \$590 million, or 1%, from December 31, 2015 primarily as a result of an increase in new origination activity resulting from an increase in demand and line utilization in the first half of the year. Average commercial leases increased \$120 million, or 3%, from December 31, 2015 primarily as a result of an increase in syndication and participation origination activity. Average commercial mortgage loans decreased \$222 million, or 3%, from December 31, 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 December 31, 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 \$1.1 billion, or 10%, from December 31, 2015 and average home equity decreased \$594 million, or 7%, from December 31, 2015 as payoffs exceeded new loan production. Average credit card decreased \$98 million, or 4%, primarily due to the sale of the agent bankcard loan portfolio during the second quarter of 2016 and a decrease in average balance per active customer. Average residential mortgage loans increased \$1.3 billion, or 9%, from December 31, 2015 primarily driven by the continued retention of certain agency 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 \$31.6 billion and \$29.5 billion at December 31, 2016 and December 31, 2015, respectively. The taxable investment securities portfolio had an effective duration of 4.9 years at December 31, 2016 compared to 5.1 years at December 31, 2015.

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. Securities are classified as trading when bought and held principally for the purpose of selling them in the near term. At December 31, 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 December 31, 2016 and 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. Refer to Note 1 of the Notes to Consolidated Financial Statements for the Bancorp's methodology for both classifying investment securities and management's evaluation of securities in an unrealized loss position for OTTI.

The following table provides a summary of OTTI by security type for the years ended December 31:

**TABLE 27: COMPONENTS OF OTTI BY SECURITY TYPE**

(\$ in millions)	2016	2015	2014
Available-for-sale and other debt securities	\$ (15)	(5)	(24)
Available-for-sale equity securities	(1)	-	-
Total OTTI <sup>(a)</sup>	\$ (16)	(5)	(24)

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

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

**TABLE 28: COMPONENTS OF INVESTMENT SECURITIES**

As of December 31 (\$ in millions)	2016	2015	2014	2013	2012
Available-for-sale and other securities (amortized cost basis):					
U.S. Treasury and federal agencies securities	\$ 547	1,155	1,545	1,549	1,771
Obligations of states and political subdivisions securities	44	50	185	187	203
Mortgage-backed securities:					
Agency residential mortgage-backed securities <sup>(a)</sup>	15,525	14,811	11,968	12,294	8,403
Agency commercial mortgage-backed securities	9,029	7,795	4,465	-	-
Non-agency commercial mortgage-backed securities	3,076	2,801	1,489	1,368	1,089
Asset-backed securities and other debt securities	2,106	1,363	1,324	2,146	2,072
Equity securities <sup>(b)</sup>	697	703	701	865	1,033
<b>Total available-for-sale and other securities</b>	<b>\$ 31,024</b>	<b>28,678</b>	<b>21,677</b>	<b>18,409</b>	<b>14,571</b>
Held-to-maturity securities (amortized cost basis):					
Obligations of states and political subdivisions securities	\$ 24	68	186	207	282
Asset-backed securities and other debt securities	2	2	1	1	2
<b>Total held-to-maturity securities</b>	<b>\$ 26</b>	<b>70</b>	<b>187</b>	<b>208</b>	<b>284</b>
Trading securities (fair value):					
U.S. Treasury and federal agencies securities	\$ 23	19	14	5	7
Obligations of states and political subdivisions securities	39	9	8	13	17
Agency residential mortgage-backed securities	8	6	9	3	7
Asset-backed securities and other debt securities	15	19	13	7	15
Equity securities	325	333	316	315	161
<b>Total trading securities</b>	<b>\$ 410</b>	<b>386</b>	<b>360</b>	<b>343</b>	<b>207</b>

(a) Includes interest-only mortgage-backed securities recorded at fair value with fair value changes recorded in securities gains, net in the Consolidated Statements of Income.

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

On an amortized cost basis, available-for-sale and other securities increased \$2.3 billion, or 8%, from December 31, 2015 primarily due to increases in agency residential and agency commercial mortgage-backed securities and asset-backed securities and other debt 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 24% and 23% of total interest-earning assets at December 31, 2016 and December 31, 2015, respectively. The estimated weighted-average life of the debt securities in the available-for-sale and other securities portfolio was 6.7 years at December 31, 2016 compared to 6.4 years at December 31, 2015. In addition, at both December 31, 2016 and 2015 the available-for-sale and other securities portfolio had a weighted-average yield of 3.19%.

Information presented in Table 29 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 \$159 million at December 31, 2016 compared to \$366 million at December 31, 2015. The decrease from December 31, 2015 was primarily due to an increase in interest rates during the year ended December 31, 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.



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**TABLE 29: CHARACTERISTICS OF AVAILABLE-FOR-SALE AND OTHER SECURITIES**

As of December 31, 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	\$ 75	76	0.2	4.39 %
Average life 1 – 5 years	177	177	4.6	1.82
Average life 5 – 10 years	295	296	5.3	2.11
Total	\$ 547	549	4.4	2.33 %
Obligations of states and political subdivisions securities: <sup>(a)</sup>				
Average life of 1 year or less	-	-	0.4	5.76
Average life 1 – 5 years	9	9	1.4	0.10
Average life 5 – 10 years	35	36	6.3	3.93
Total	\$ 44	45	5.2	3.15 %
Agency residential mortgage-backed securities:				
Average life of 1 year or less	45	46	0.8	3.93
Average life 1 – 5 years	4,485	4,549	4.1	3.10
Average life 5 – 10 years	10,282	10,301	6.8	3.36
Average life greater than 10 years	713	712	11.5	3.19
Total	\$ 15,525	15,608	6.2	3.28 %
Agency commercial mortgage-backed securities:				
Average life of 1 year or less	17	17	0.7	3.08
Average life 1 – 5 years	2,104	2,089	3.5	2.89
Average life 5 – 10 years	6,432	6,482	7.5	3.21
Average life greater than 10 years	476	467	11.0	2.97
Total	\$ 9,029	9,055	6.8	3.12 %
Non-agency commercial mortgage-backed securities:				
Average life of 1 year or less	121	122	0.6	2.27
Average life 1 – 5 years	239	245	3.3	3.35
Average life 5 – 10 years	2,716	2,745	7.6	3.26
Total	\$ 3,076	3,112	7.0	3.23 %
Asset-backed securities and other debt securities:				
Average life of 1 year or less	88	89	0.5	3.51
Average life 1 – 5 years	525	529	2.8	3.34
Average life 5 – 10 years	309	311	8.1	2.57
Average life greater than 10 years	1,184	1,187	15.4	2.70
Total	\$ 2,106	2,116	10.6	2.87 %
Equity securities	697	698		
Total available-for-sale and other securities	\$ 31,024	31,183	6.7	3.19 %

(a) Taxable-equivalent yield adjustments included in the above table are 0.00%, 0.01%, 2.14% and 1.68% for securities with an average life of 1 year or less, 1-5 years, 5-10 years and in total, respectively.

**Deposits**

The Bancorp's deposit balances represent an important source of funding and revenue growth opportunity. The Bancorp continues to focus on core deposit growth in its retail and commercial franchises

by improving customer satisfaction, building full relationships and offering competitive rates. Core deposits represented 71% of the Bancorp's average asset funding base for both of the years ended December 31, 2016 and 2015.

The following table presents the end of period components of deposits:

**TABLE 30: COMPONENTS OF DEPOSITS**

As of December 31 (\$ in millions)	2016	2015	2014	2013	2012
Demand	\$ 35,782	36,267	34,809	32,634	30,023
Interest checking	26,679	26,768	26,800	25,875	24,477
Savings	13,941	14,601	15,051	17,045	19,879
Money market	20,749	18,494	17,083	11,644	6,875
Foreign office	426	464	1,114	1,976	885
Transaction deposits	97,577	96,594	94,857	89,174	82,139
Other time	3,866	4,019	3,960	3,530	4,015
Core deposits	101,443	100,613	98,817	92,704	86,154
Certificates \$100,000 and over <sup>(a)</sup>	2,378	2,592	2,895	6,571	3,284
Other	-	-	-	-	79
Total deposits	\$ 103,821	103,205	101,712	99,275	89,517

(a) Includes \$1,280, \$1,449, \$1,483, \$1,479 and \$1,402 of certificates \$250,000 and over at December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

Core deposits increased \$830 million, or 1%, from December 31, 2015, driven by an increase of \$983 million in transaction deposits. Transaction deposits increased from December 31, 2015 primarily

due to an increase in money market deposits, partially offset by decreases in savings deposits and demand deposits. Money market deposits increased \$2.3 billion, or 12%, from December 31, 2015

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primarily due to competitive pricing related to a promotional product offering during 2016 which drove customer acquisition and balance migration from savings deposits from December 31, 2015. Savings deposits decreased \$660 million, or 5%, from December 31, 2015. Demand deposits decreased \$485 million, or 1%, from December 31, 2015 primarily due to lower balances per customer account. Interest checking deposits included a decrease due to lower balances per account for commercial customers, partially offset by the benefit from a shift from the excess cash in trust accounts managed by Fifth Third to interest checking deposit accounts as a

result of the recent enactment of new money market reform. The increase in core deposits from December 31, 2015 included the impact of the sale of \$511 million of deposits as part of the branches sold in the St. Louis MSA and Pittsburgh MSA during 2016.

Certificates \$100,000 and over decreased \$214 million, or 8%, from December 31, 2015 primarily due to the maturity and run-off of retail and institutional certificates of deposit since December 31, 2015.

The following table presents the components of average deposits for the years ended December 31:

**TABLE 31: COMPONENTS OF AVERAGE DEPOSITS**

(\$ in millions)	2016	2015	2014	2013	2012
Demand	\$ 35,862	35,164	31,755	29,925	27,196
Interest checking	25,143	26,160	25,382	23,582	23,096
Savings	14,346	14,951	16,080	18,440	21,393
Money market	19,523	18,152	14,670	9,467	4,903
Foreign office	497	817	1,828	1,501	1,528
Transaction deposits	95,371	95,244	89,715	82,915	78,116
Other time	4,010	4,051	3,762	3,760	4,306
Core deposits	99,381	99,295	93,477	86,675	82,422
Certificates \$100,000 and over <sup>(a)</sup>	2,735	2,869	3,929	6,339	3,102
Other	333	57	-	17	27
Total average deposits	\$ 102,449	102,221	97,406	93,031	85,551

(a) Includes \$1,310, \$1,410, \$1,424, \$1,283 and \$1,678 of average certificates \$250,000 and over during the years ended **December 31, 2016**, 2015, 2014, 2013 and 2012, respectively.

On an average basis, core deposits increased \$86 million from December 31, 2015 primarily due to an increase of \$127 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 increased \$1.4 billion, or 8%, primarily due to competitive pricing related to a promotional product offering during 2016 which drove customer acquisition and balance migration from average savings deposits. Average savings deposits decreased \$605 million, or 4%, compared to December 31, 2015. Average demand deposits increased \$698 million, or 2%, from December 31, 2015 due to higher average customer balances per commercial customer

account. Average interest checking deposits and average foreign office deposits decreased \$1.0 billion, or 4%, and \$320 million, or 39%, respectively, from December 31, 2015 primarily due to a decrease in average commercial customer balances per account. The increase in average core deposits from December 31, 2015 included the sale of deposits as part of the St. Louis MSA and Pittsburgh MSA during 2016, which impacted average core deposits by approximately \$200 million. Average other deposits increased \$276 million from December 31, 2015 primarily due to an increase in Eurodollar trade deposits. Average certificates \$100,000 and over decreased \$134 million, or 5%, from December 31, 2015 due primarily to the maturity and run-off of retail and institutional certificates of deposit since December 31, 2015.

**Contractual Maturities**

The contractual maturities of certificates \$100,000 and over as of December 31, 2016 are summarized in the following table:

**TABLE 32: CONTRACTUAL MATURITIES OF CERTIFICATES \$100,000 AND OVER**

(\$ in millions)	
Next 3 months	\$ 191
3-6 months	125
6-12 months	483
After 12 months	1,579
Total certificates \$100,000 and over	\$ 2,378

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The contractual maturities of other time deposits and certificates \$100,000 and over as of December 31, 2016 are summarized in the following table:

**TABLE 33: CONTRACTUAL MATURITIES OF OTHER TIME DEPOSITS AND CERTIFICATES \$100,000 AND OVER**

(\$ in millions)	
Next 12 months	\$ 2,173
13-24 months	1,601
25-36 months	1,181
37-48 months	999
49-60 months	275
After 60 months	15
<b>Total other time deposits and certificates \$100,000 and over</b>	<b>\$ 6,244</b>

**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 34 summarizes the end of period components of total borrowings. Total borrowings as a percentage of average interest-bearing liabilities were 21% at both December 31, 2016 and 2015.

The following table summarizes the end of period components of borrowings:

**TABLE 34: COMPONENTS OF BORROWINGS**

As of December 31 (\$ in millions)	2016	2015	2014	2013	2012
Federal funds purchased	\$ 132	151	144	284	901
Other short-term borrowings	3,535	1,507	1,556	1,380	6,280
Long-term debt	14,388	15,810 <sup>(a)</sup>	14,932 <sup>(a)</sup>	9,605 <sup>(a)</sup>	7,060 <sup>(a)</sup>
<b>Total borrowings</b>	<b>\$ 18,055</b>	17,468	16,632	11,269	14,241

<sup>(a)</sup> Upon adoption of ASU 2015-03 on January 1, 2016, the Consolidated Balance Sheets for the years ended December 31, 2015, 2014, 2013 and 2012 were adjusted to reflect the reclassification of \$34, \$36, \$28 and \$25, respectively, of debt issuance costs from other assets to long-term debt. For further information, refer to Note 1 of the Notes to Consolidated Financial Statements.

Total borrowings increased \$587 million, or 3%, from December 31, 2015 primarily due to an increase in other short-term borrowings partially offset by a decrease in long-term debt. Other short-term borrowings increased \$2.0 billion, from December 31, 2015 driven by an increase of \$2.5 billion in FHLB short-term borrowings partially offset by a \$264 million decrease in securities sold under repurchase agreements. 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 15 of the Notes to Consolidated Financial Statements. Long-term debt decreased \$1.4

billion, or 9%, from December 31, 2015 primarily driven by the maturity of \$3.5 billion of unsecured senior bank notes, the maturity of \$250 million of unsecured subordinated bank notes and \$1.4 billion of pay downs on long-term debt associated with automobile loan securitizations. The decrease was partially offset by debt issuances during the year ended December 31, 2016 of \$2.8 billion of unsecured senior fixed-rate bank notes, \$750 million of unsecured subordinated fixed-rate bank notes, and \$250 million of unsecured senior floating-rate bank notes. For additional information regarding automobile securitizations and long-term debt, refer to Note 11 and Note 16, respectively, of the Notes to Consolidated Financial Statements.

The following table summarizes the components of average borrowings:

**TABLE 35: COMPONENTS OF AVERAGE BORROWINGS**

For the years ended December 31 (\$ in millions)	2016	2015	2014	2013	2012
Federal funds purchased	\$ 506	920	458	503	560
Other short-term borrowings	2,845	1,721	1,873	3,024	4,246
Long-term debt	15,394	14,644 <sup>(a)</sup>	12,894 <sup>(a)</sup>	7,886 <sup>(a)</sup>	8,991 <sup>(a)</sup>
<b>Total average borrowings</b>	<b>\$ 18,745</b>	17,285	15,225	11,413	13,797

<sup>(a)</sup> Upon adoption of ASU 2015-03 on January 1, 2016, the Consolidated Balance Sheets for the years ended 2015, 2014, 2013 and 2012 were adjusted to reflect the reclassification of \$33, \$34, \$28 and \$52, respectively, of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 1 of the Notes to Consolidated Financial Statements.

Total average borrowings increased \$1.5 billion, or 8%, compared to December 31, 2015, due to increases in average long-term debt and average other short-term borrowings partially offset by a decrease in average federal funds purchased. The increase in average long-term debt of \$750 million, or 5%, was driven primarily by the issuances of certain long-term debt as discussed above in the second and third quarter of 2016, partially offset by certain maturities, as previously mentioned, in the fourth quarter of 2016. The level of average federal funds purchased and average other short-term borrowings can fluctuate significantly from period to period depending on

funding needs and which sources are used to satisfy those needs. The increase in average other short-term borrowings, compared to December 31, 2015, of \$1.1 billion was primarily due to an increase in FHLB short-term advances. Information on the average rates paid on borrowings is presented 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.

## 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 expectations 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 limits and key risk indicator thresholds. Those limits and thresholds 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. Treasury is responsible for the economic capital program. Credit Risk Management is responsible for the quantitative analytics to support the consumer and commercial portfolio and risk rating models, ALLL methodology and analytics needed to assess credit risk and develop mitigation strategies related to that risk. Credit Risk Management 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 six 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. The primary

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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 ALLL 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 Consolidated Financial Statements for further information on the Bancorp's credit grade categories, which are derived from standard regulatory rating definitions. In addition, stress testing is performed on various commercial portfolios using the CCAR model and for certain portfolios, such as Real Estate and Leveraged Lending, the stress testing is performed at the individual loan level during credit underwriting.

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

**TABLE 36: POTENTIAL PROBLEM PORTFOLIO LOANS AND LEASES**

As of December 31, 2016 (\$ in millions)	Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial loans	\$ 1,108	1,110	1,807
Commercial mortgage loans	102	102	104
Commercial leases	22	22	22
Total potential problem portfolio loans and leases	\$ 1,232	1,234	1,933

**TABLE 37: 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 allowance for credit loss 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 eleven

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

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*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.

**Overview**

Economic growth continues to improve as data has been broadly positive. There have been steady gains in the job market and real GDP is expected to expand at a moderate pace in 2017. Household spending continues to be the strongest driver of the U.S. economy. Inflation continues to run below the FRB's stated objective, but has increased over the past several months and could rise further if unemployment continues to fall. Improving global conditions are supporting U.S. manufacturing activity and housing prices continue to increase across the country. 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 38: COMMERCIAL MORTGAGE LOANS OUTSTANDING BY LTV, LOANS GREATER THAN \$1 MILLION**

As of December 31, 2016 (\$ in millions)	LTV > 100%	LTV 80-100%	LTV < 80%
Commercial mortgage owner-occupied loans	\$ 106	178	1,953
Commercial mortgage nonowner-occupied loans	22	100	2,598
Total	\$ 128	278	4,551

**TABLE 39: 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

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The following table provides detail on commercial loan 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:

**TABLE 40: COMMERCIAL LOAN AND LEASE PORTFOLIO (EXCLUDING LOANS HELD FOR SALE)**

As of December 31 (\$ in millions)	2016			2015		
	Outstanding	Exposure	Nonaccrual	Outstanding	Exposure	Nonaccrual
<b>By Industry:</b>						
Manufacturing	\$ 10,070	19,646	50	10,572	20,422	70
Real estate	7,206	11,919	26	6,494	10,293	40
Financial services and insurance	5,648	11,522	2	5,896	13,021	3
Healthcare	4,649	6,450	23	4,676	6,879	22
Business services	4,599	6,996	65	4,471	6,765	96
Retail trade	4,048	7,598	6	3,764	7,391	8
Wholesale trade	3,482	6,249	24	4,082	7,254	23
Transportation and warehousing	3,059	4,473	38	3,111	4,619	1
Accommodation and food	3,051	4,817	5	2,507	4,104	6
Communication and information	2,901	4,726	-	2,913	5,052	2
Construction	2,025	3,786	3	1,871	3,403	8
Entertainment and recreation	1,736	2,979	3	1,210	2,066	4
Mining	1,312	2,621	246	1,499	2,695	36
Utilities	1,168	2,799	-	1,217	2,854	-
Other services	729	945	24	864	1,188	10
Public administration	417	463	-	495	562	-
Agribusiness	284	426	2	368	527	4
Individuals	66	83	1	139	187	2
Other	2	2	5	7	6	6
<b>Total</b>	<b>\$ 56,452</b>	<b>98,500</b>	<b>523</b>	<b>56,156</b>	<b>99,288</b>	<b>341</b>
<b>By Loan Size:</b>						
Less than \$200,000	1 %	1	3	1	1	7
\$200,000 to \$1 million	3	3	5	4	3	10
\$1 million to \$5 million	9	7	16	10	8	25
\$5 million to \$10 million	7	6	13	8	7	25
\$10 million to \$25 million	23	20	54	24	21	15
Greater than \$25 million	57	63	9	53	60	18
<b>Total</b>	<b>100 %</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>By State:</b>						
Ohio	15 %	16	4	16	17	8
Florida	8	7	5	8	7	12
Michigan	7	7	5	8	7	9
Illinois	7	7	9	7	8	20
Indiana	4	4	2	5	5	4
North Carolina	4	4	-	4	4	1
Tennessee	3	3	1	3	3	-
Pennsylvania	3	3	4	3	3	2
Kentucky	3	3	2	3	3	1
All other states	46	46	68	43	43	43
<b>Total</b>	<b>100 %</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

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 and fourth quarters of 2016, this portfolio has stabilized with signs of 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.

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

**TABLE 41: NON-POWER PRODUCING ENERGY PORTFOLIO**

As of December 31, 2016 (\$ in millions)							For the Year Ended December 31, 2016
	Pass	Criticized	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
Reserve-based lending	\$ 337	338	675	1,368	-	170	-
Midstream	308	-	308	1,001	-	-	-
Oil field services	153	74	227	357	-	37	19
Oil and gas	17	78	95	475	-	37	3
Refining	82	-	82	471	-	-	-
Total	\$ 897	490	1,387	3,672	-	244	22

**TABLE 42: NON-POWER PRODUCING ENERGY PORTFOLIO**

As of December 31, 2015 (\$ in millions)							For the Year Ended December 31, 2015
	Pass	Criticized	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
Reserve-based lending	\$ 295	473	768	1,296	-	-	-
Midstream	335	-	335	1,029	-	-	-
Oil field services	198	88	286	450	-	22	3
Oil and gas	69	54	123	523	3	-	-
Refining	83	1	84	634	-	-	-
Total	\$ 980	616	1,596	3,932	3	22	3

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

**TABLE 43: NONOWNER-OCCUPIED COMMERCIAL REAL ESTATE (EXCLUDING LOANS HELD FOR SALE)<sup>(a)</sup>**

As of December 31, 2016 (\$ in millions)					For the Year Ended December 31, 2016	
	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs (Recoveries)	
By State:						
Ohio	\$ 1,393	1,844	-	4	(2)	
Florida	947	1,521	-	-	1	
Illinois	656	1,226	-	-	1	
Michigan	574	709	-	1	3	
North Carolina	552	788	-	-	-	
Indiana	291	508	-	-	-	
All other states	2,822	4,836	-	4	3	
Total	\$ 7,235	11,432	-	9	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 44: NONOWNER-OCCUPIED COMMERCIAL REAL ESTATE (EXCLUDING LOANS HELD FOR SALE)<sup>(a)</sup>**

As of December 31, 2015 (\$ in millions)					For the Year Ended December 31, 2015	
	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs (Recoveries)	
By State:						
Ohio	\$ 1,334	1,594	-	7	(2)	
Florida	687	1,041	-	9	2	
Illinois	650	1,028	-	2	-	
Michigan	598	722	-	13	7	
North Carolina	375	669	-	-	(1)	
Indiana	294	521	-	-	-	
All other states	2,467	4,383	-	4	11	
Total	\$ 6,405	9,958	-	35	17	

(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.

**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



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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 December 31, 2016, consumer real estate loans, consisting of residential mortgage loans and home equity loans, originated from 2005 through 2008 represent approximately 17% of the consumer real estate portfolio. These loans accounted for 54% of total consumer real estate secured losses for the year ended December 31, 2016. 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 \$758 million of ARM loans will have rate resets during the next twelve months. Of these resets, 98% are expected to experience an increase in rate, with an average increase of approximately one half 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 88% of the portfolio as of December 31, 2016 and had a weighted-average LTV of 71% 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:

**TABLE 45: RESIDENTIAL MORTGAGE PORTFOLIO LOANS BY LTV AT ORIGINATION**

As of December 31 (\$ in millions)	2016		2015	
	Outstanding	Weighted-Average LTV	Outstanding	Weighted-Average LTV
LTV ≤ 80%	\$ 11,412	65.9 %	\$ 10,198	65.6 %
LTV > 80%, with mortgage insurance	1,284	93.3	1,300	93.3
LTV > 80%, no mortgage insurance	2,355	95.7	2,218	96.0
Total	\$ 15,051	73.2 %	\$ 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 46: RESIDENTIAL MORTGAGE PORTFOLIO LOANS, LTV GREATER THAN 80%, NO MORTGAGE INSURANCE**

As of December 31, 2016 (\$ in millions)				For the Year Ended
	Outstanding	90 Days Past Due	Nonaccrual	December 31, 2016
By State:				Net Charge-offs
Ohio	\$ 556	2	4	2
Illinois	450	1	1	-
Florida	333	1	3	-
Michigan	277	-	1	1
Indiana	161	-	1	-
North Carolina	117	-	1	-
Kentucky	91	1	-	-
All other states	370	-	-	1
Total	\$ 2,355	5	11	4

**TABLE 47: RESIDENTIAL MORTGAGE PORTFOLIO LOANS, LTV GREATER THAN 80%, NO MORTGAGE INSURANCE**

As of December 31, 2015 (\$ in millions)				For the Year Ended December 31, 2015
	Outstanding	90 Days Past Due	Nonaccrual	Net Charge-offs
By State:				
Ohio	\$ 517	2	4	3
Illinois	375	-	1	1
Michigan	280	1	1	2
Florida	278	1	4	-
Indiana	137	1	1	-
North Carolina	108	-	1	-
Kentucky	84	1	-	-
All other states	439	-	1	-
<b>Total</b>	<b>\$ 2,218</b>	<b>6</b>	<b>13</b>	<b>6</b>

*Home equity portfolio*

The Bancorp's home equity portfolio is primarily comprised of home equity lines of credit. Beginning in the first quarter of 2013, the Bancorp's newly originated home equity lines of credit have a 10-year interest-only draw period followed by a 20-year amortization period. The home equity line of credit previously offered by the Bancorp was a revolving facility with a 20-year term, minimum payments of interest-only and a balloon payment of principal at maturity. Peak maturity years for the balloon home equity lines of credit are 2025 to 2028 and approximately 26% 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 68% of the balances at December 31, 2016 and 95% of the losses during the year ended December 31, 2016 compared to 73% of the balances at December 31, 2015 and 97% of the losses during the year ended December 31, 2015.

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 \$5.3 billion, respectively, as of December 31, 2016. Of the total \$7.7 billion of outstanding home equity loans:

- 86% reside within the Bancorp's Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois as of December 31, 2016;
- 36% are in senior lien positions and 64% are in junior lien positions at December 31, 2016;
- 79% of non-delinquent borrowers made at least one payment greater than the minimum payment during the year ended December 31, 2016; and
- The portfolio had an average refreshed FICO score of 743 at December 31, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

**TABLE 48: HOME EQUITY PORTFOLIO LOANS OUTSTANDING BY REFRESHED FICO SCORE**

As of December 31 (\$ in millions)	2016		2015	
	Outstanding	% of Total	Outstanding	% of Total
<b>Senior Liens:</b>				
FICO ≤ 659	\$ 262	3 %	\$ 279	3 %
FICO 660-719	424	6	443	6
FICO ≥ 720	2,112	27	2,210	26
Total senior liens	2,798	36	2,932	35
<b>Junior Liens:</b>				
FICO ≤ 659	633	8	705	9
FICO 660-719	975	13	1,083	13
FICO ≥ 720	3,289	43	3,581	43
Total junior liens	4,897	64	5,369	65
Total	\$ 7,695	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:

**TABLE 49: HOME EQUITY PORTFOLIO LOANS OUTSTANDING BY LTV AT ORIGINATION**

As of December 31 (\$ in millions)	2016		2015	
	Outstanding	Weighted-Average LTV	Outstanding	Weighted-Average LTV
<b>Senior Liens:</b>				
LTV ≤ 80%	\$ 2,454	55.1 %	\$ 2,557	55.1 %
LTV > 80%	344	89.0	375	89.1
Total senior liens	2,798	59.5	2,932	59.7
<b>Junior Liens:</b>				
LTV ≤ 80%	2,892	67.6	3,088	67.6
LTV > 80%	2,005	90.7	2,281	90.9
Total junior liens	4,897	78.7	5,369	79.2
Total	\$ 7,695	71.2 %	\$ 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 50: HOME EQUITY PORTFOLIO LOANS OUTSTANDING WITH A LTV GREATER THAN 80%**

As of December 31, 2016 (\$ in millions)	For the Year Ended December 31, 2016				
	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
By State:					
Ohio	\$ 1,029	1,826	-	9	5
Michigan	434	666	-	5	2
Illinois	264	402	-	3	3
Indiana	185	302	-	2	1
Kentucky	172	297	-	2	1
Florida	82	114	-	2	-
All other states	183	260	-	4	3
Total	\$ 2,349	3,867	-	27	15

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**TABLE 51: HOME EQUITY PORTFOLIO LOANS OUTSTANDING WITH A LTV GREATER THAN 80%**

As of December 31, 2015 (\$ in millions)					For the Year Ended
	Outstanding	Exposure	90 Days Past Due	Nonaccrual	December 31, 2015
By State:					Net Charge-offs
Ohio	\$ 1,081	1,830	-	10	6
Michigan	519	773	-	5	5
Illinois	305	457	-	3	3
Indiana	220	352	-	3	3
Kentucky	208	344	-	2	1
Florida	95	129	-	2	1
All other states	228	320	-	5	2
Total	\$ 2,656	4,205	-	30	21

*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:

**TABLE 52: AUTOMOBILE PORTFOLIO LOANS OUTSTANDING BY FICO SCORE AT ORIGINATION**

As of December 31 (\$ in millions)	2016		2015	
	Outstanding	% of Total	Outstanding	% of Total
FICO ≤ 690	\$ 1,714	17 %	\$ 1,724	15 %
FICO > 690	8,269	83	9,769	85
Total	\$ 9,983	100 %	\$ 11,493	100 %

The automobile portfolio is characterized by direct and indirect lending products to consumers. As of December 31, 2016, 47% 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:

**TABLE 53: AUTOMOBILE PORTFOLIO LOANS OUTSTANDING BY LTV AT ORIGINATION**

As of December 31 (\$ in millions)	2016		2015	
	Outstanding	Weighted-Average LTV	Outstanding	Weighted-Average LTV
LTV ≤ 100%	\$ 6,637	82.0 %	\$ 7,740	81.7%
LTV > 100%	3,346	111.7	3,753	111.3
Total	\$ 9,983	92.4 %	\$ 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% as of and for the years ended:

**TABLE 54: AUTOMOBILE PORTFOLIO LOANS OUTSTANDING WITH A LTV GREATER THAN 100%**

(\$ in millions)	90 Days Past			
	Outstanding	Due and Accruing	Nonaccrual	Net Charge-offs
December 31, 2016	\$ 3,346	5	1	23
December 31, 2015	3,753	5	1	20

*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 December 31, 2016. At December 31, 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.

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

**TABLE 55: CREDIT CARD PORTFOLIO LOANS OUTSTANDING BY FICO SCORE AT ORIGINATION**

As of December 31 (\$ in millions)	2016		2015	
	Outstanding	% of Total	Outstanding	% of Total
FICO ≤ 659	\$ 45	2 %	\$ 45	2 %
FICO 660-719	521	23	506	22
FICO ≥ 720	1,671	75	1,708	76
Total	\$ 2,237	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 December 31, 2016, repurchased loans restructured or refinanced under these programs were immaterial to the Consolidated Financial Statements. Additionally, as of December 31, 2016 and December 31, 2015, \$12 million and \$14 million, respectively, of loans refinanced under HARP were included in loans held for sale in the Consolidated Balance Sheets. The Bancorp recognized \$6 million of noninterest income in mortgage banking net revenue in the Consolidated Statements of Income related to the sale of loans restructured or refinanced under

the HAMP and HARP programs for both periods ended December 31, 2016 and 2015.

**European Exposure**

The Bancorp has no direct sovereign exposure to any European government as of December 31, 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 \$2.8 billion and funded exposure was \$1.3 billion as of December 31, 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 December 31, 2016:

**TABLE 56: EUROPEAN EXPOSURE**

(\$ in millions)	Sovereigns		Financial Institutions		Non-Financial Institutions		Total	
	Total Exposure <sup>(a)</sup>	Funded Exposure	Total Exposure <sup>(a)</sup>	Funded Exposure	Total Exposure <sup>(a)</sup>	Funded Exposure	Total Exposure <sup>(a)</sup>	Funded Exposure
	Peripheral Europe <sup>(b)</sup>	\$ -	-	79	37	117	45	196
Other Eurozone <sup>(c)</sup>	-	-	343	107	1,375	749	1,718	856
Total Eurozone	\$ -	-	422	144	1,492	794	1,914	938
United Kingdom	-	-	55	55	740	304	795	359
Other Europe <sup>(d)</sup>	-	-	3	3	111	34	114	37
Total Europe	\$ -	-	480	202	2,343	1,132	2,823	1,334

(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 57. For further information on the Bancorp's policies related to accounting for delinquent and nonperforming loans and leases, refer to the

Nonaccrual Loans and Leases section of Note 1 of the Notes to Consolidated Financial Statements.

Nonperforming assets were \$751 million at December 31, 2016 compared to \$659 million at December 31, 2015. At December 31, 2016, \$13 million of nonaccrual loans were held for sale, compared to \$12 million at December 31, 2015.

Nonperforming portfolio assets as a percent of total loans and leases and OREO were 0.80% as of December 31, 2016 compared to 0.70% as of December 31, 2015. Nonaccrual loans and leases secured by real estate were 25% of total nonaccrual loans and leases as of December 31, 2016 compared to 43% as of December 31, 2015.

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Commercial portfolio nonaccrual loans and leases were \$523 million at December 31, 2016, an increase of \$182 million from December 31, 2015 primarily due to increases of \$170 million in the reserve-based lending energy portfolio and the impact of low oil prices during the year ended 2016.

Consumer portfolio nonaccrual loans and leases were \$137 million at December 31, 2016, a decrease of \$28 million from December 31, 2015. Refer to Table 58 for a rollforward of the nonaccrual loans and leases.

OREO and other repossessed property was \$78 million at December 31, 2016, compared to \$141 million at December 31,

2015. The Bancorp recognized \$17 million and \$24 million in losses on the sale or write-down of OREO properties during the years ended December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, approximately \$41 million and \$35 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. 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 57: SUMMARY OF NONPERFORMING ASSETS AND DELINQUENT LOANS**

As of December 31 (\$ in millions)	2016	2015	2014	2013	2012
Nonaccrual portfolio loans and leases:					
Commercial and industrial loans	\$ 302	82	86	127	234
Commercial mortgage loans	27	56	64	90	215
Commercial construction loans	-	-	-	10	70
Commercial leases	2	-	3	3	1
Residential mortgage loans	17	28	44	83	114
Home equity	55	62	72	74	30
Other consumer loans and leases	-	-	-	-	1
Nonaccrual portfolio restructured loans and leases:					
Commercial and industrial loans	176	177	142	154	96
Commercial mortgage loans	14 <sup>(a)</sup>	25 <sup>(a)</sup>	71 <sup>(a)</sup>	53 <sup>(a)</sup>	67
Commercial construction loans	-	-	-	19	6
Commercial leases	2	1	1	2	8
Residential mortgage loans	17	23	33	83	123
Home equity	18	17	21	19	23
Automobile loans	2	2	1	1	2
Credit card	28	33	41	33	39
Total nonaccrual portfolio loans and leases <sup>(b)</sup>	660	506	579	751	1,029
OREO and other repossessed property	78	141	165 <sup>(d)</sup>	229 <sup>(d)</sup>	257 <sup>(d)</sup>
Total nonperforming portfolio assets	738	647	744	980	1,286
Nonaccrual loans held for sale	4	1	24	6	25
Nonaccrual restructured loans held for sale	9	11	15	-	4
Total nonperforming assets	\$ 751	659	783	986	1,315
Loans and leases 90 days past due and accruing:					
Commercial and industrial loans	\$ 4	7	-	-	1
Commercial mortgage loans	-	-	-	-	22
Commercial construction loans	-	-	-	-	1
Residential mortgage loans <sup>(a)</sup>	49	40	56	66	75
Home equity	-	-	-	-	58
Automobile loans	9	10	8	8	8
Credit card	22	18	23	29	30
Total loans and leases 90 days past due and accruing	\$ 84	75	87	103	195
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO	0.80 %	0.70	0.82	1.10	1.49
ALLL as a percent of nonperforming portfolio assets	170	197	178	161	144

(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 \$312, \$335, \$373, \$378 and \$414 as of December 31, 2016, 2015, 2014, 2013, and 2012, respectively. The Bancorp recognized losses of \$6, \$8, \$13, \$5 and \$2 for the years ended December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(b) Includes \$4, \$6, \$9, \$10 and \$10 of nonaccrual government insured commercial loans whose repayments are insured by the SBA at December 31, 2016, 2015, 2014, 2013 and 2012, respectively, and \$1, \$2, \$4, \$2, and \$1 of restructured nonaccrual government insured commercial loans at December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(c) Excludes \$19 of restructured nonaccrual loans at December 31, 2016, \$20 at December 31, 2015 and \$21 at both December 31, 2014 and 2013 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) Excludes \$71, \$77 and \$72 of OREO related to government insured loans at December 31, 2014, 2013 and 2012, respectively. The Bancorp has historically excluded government guaranteed loans classified in OREO from its nonperforming asset disclosures. Upon the prospective adoption on January 1, 2015 of ASU 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure," government guaranteed loans meeting certain criteria will be reclassified to other receivables rather than OREO upon foreclosure. Refer to Note 1 of the Notes to Consolidated Financial Statements for further information on the adoption of this amended guidance.

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

**TABLE 58: ROLLFORWARD OF PORTFOLIO NONACCRUAL LOANS AND LEASES**

For the year ended December 31, 2016 (\$ in millions)	Residential		Consumer	Total
	Commercial	Mortgage		
Balance, beginning of period	\$ 341	51	114	506
Transfers to nonaccrual status	716	51	149	916
Transfers to accrual status	(13)	(43)	(70)	(126)
Transfers to held for sale	(42)	-	-	(42)
Loans sold from portfolio	(11)	-	-	(11)
Loan paydowns/payoffs	(256)	(7)	(31)	(294)
Transfers to OREO	(8)	(14)	(11)	(33)
Charge-offs	(232)	(4)	(48)	(284)
Draws/other extensions of credit	28	-	-	28
Balance, end of period	\$ 523	34	103	660
For the year ended December 31, 2015 (\$ in millions)				
Balance, beginning of period	\$ 367	77	135	579
Transfers to nonaccrual status	515	65	155	735
Transfers to accrual status	(9)	(39)	(68)	(116)
Transfers from held for sale	-	5	-	5
Transfers to held for sale	(12)	-	(1)	(13)
Loans sold from portfolio	(11)	-	-	(11)
Loan paydowns/payoffs	(189)	(15)	(28)	(232)
Transfers to OREO	(32)	(29)	(18)	(79)
Charge-offs	(298)	(13)	(61)	(372)
Draws/other extensions of credit	10	-	-	10
Balance, end of period	\$ 341	51	114	506

**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 \$958 million and \$979 million at December 31, 2016 and 2015, respectively. As of December 31, 2016, the percentage of restructured residential mortgage loans, home equity loans, and credit card loans that are past due 30 days or more were 30%, 12% and 30%, respectively.

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

**TABLE 59: ACCRUING AND NONACCRUING PORTFOLIO TDRs**

As of December 31, 2016 (\$ in millions)	Accruing			Nonaccruing	Total
	Current	30-89 Days Past Due	90 Days or More Past Due		
Commercial loans <sup>(b)(c)</sup>	\$ 319	3	-	192	514
Residential mortgage loans <sup>(a)</sup>	458	56	121	17	652
Home equity	269	18	-	18	305
Automobile loans	12	-	-	2	14
Credit card	20	4	-	28	52
Total	\$ 1,078	81	121	257	1,537

(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, 2016, these advances represented \$230 of current loans, \$46 of 30-89 days past due loans and \$107 of 90 days or more past due loans.

(b) As of December 31, 2016, excludes \$7 of restructured accruing loans and \$19 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 60: ACCRUING AND NONACCRUING PORTFOLIO TDRs

As of December 31, 2015 (\$ in millions)	Accruing			Nonaccruing	Total
	Current	30-89 Days Past Due	90 Days or More Past Due		
Commercial loans <sup>(b)(c)</sup>	\$ 487	4	-	203	694
Residential mortgage loans <sup>(a)</sup>	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 V.A. 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.

### Analysis of Net Loan Charge-offs

Net charge-offs were 39 bps and 48 bps of average portfolio loans and leases for the years ended December 31, 2016 and 2015, respectively. Table 61 provides a summary of credit loss experience and net charge-offs as a percentage of average portfolio loans and leases outstanding by loan category.

Commercial net charge-offs decreased to \$190 million for the year ended December 31, 2016 compared to \$261 million for the year ended December 31, 2015. The year ended December 31, 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. The ratio of commercial loan and lease net charge-offs to average portfolio commercial loans and leases decreased to 33 bps during the year ended December 31, 2016 compared to 46 bps in the same period in the prior year.

The ratio of consumer loan and lease net charge-offs to average consumer loans and leases decreased to 48 bps for the year ended December 31, 2016 compared to 51 bps for the year ended December 31, 2015. Residential mortgage loan net charge-offs,

which typically involve partial charge-offs based upon appraised values of underlying collateral, decreased \$7 million from December 31, 2015, driven by improvements in delinquencies and loss severities.

Home equity net charge-offs decreased \$12 million compared to the year ended December 31, 2015, 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 \$7 million compared to the same period 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 prior year. The Bancorp utilizes a risk-adjusted pricing methodology to ensure adequate compensation is received for those products that have higher credit costs.



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**TABLE 61: SUMMARY OF CREDIT LOSS EXPERIENCE**

For the years ended December 31 (\$ in millions)	2016	2015	2014	2013	2012
<b>Losses charged-off:</b>					
Commercial and industrial loans	\$ (205)	(253)	(248)	(207)	(194)
Commercial mortgage loans	(22)	(39)	(37)	(66)	(120)
Commercial construction loans	-	(4)	(13)	(9)	(34)
Commercial leases	(5)	(2)	(1)	(2)	(10)
Residential mortgage loans	(19)	(28)	(139)	(70)	(129)
Home equity	(41)	(55)	(75)	(114)	(172)
Automobile loans	(54)	(46)	(44)	(44)	(55)
Credit card	(89)	(94)	(95)	(92)	(90)
Other consumer loans and leases	(21)	(21)	(27)	(33)	(33)
<b>Total losses charged-off</b>	<b>(456)</b>	<b>(542)</b>	<b>(679)</b>	<b>(637)</b>	<b>(837)</b>
<b>Recoveries of losses previously charged-off:</b>					
Commercial and industrial loans	33	24	26	39	29
Commercial mortgage loans	7	12	11	19	21
Commercial construction loans	1	1	1	5	9
Commercial leases	1	-	-	1	2
Residential mortgage loans	9	11	13	10	7
Home equity	14	16	16	17	15
Automobile loans	19	18	17	22	24
Credit card	9	12	13	14	16
Other consumer loans and leases	1	2	7	9	10
<b>Total recoveries of losses previously charged-off</b>	<b>94</b>	<b>96</b>	<b>104</b>	<b>136</b>	<b>133</b>
<b>Net losses charged-off:</b>					
Commercial and industrial loans	(172)	(229)	(222)	(168)	(165)
Commercial mortgage loans	(15)	(27)	(26)	(47)	(99)
Commercial construction loans	1	(3)	(12)	(4)	(25)
Commercial leases	(4)	(2)	(1)	(1)	(8)
Residential mortgage loans	(10)	(17)	(126)	(60)	(122)
Home equity	(27)	(39)	(59)	(97)	(157)
Automobile loans	(35)	(28)	(27)	(22)	(31)
Credit card	(80)	(82)	(82)	(78)	(74)
Other consumer loans and leases	(20)	(19)	(20)	(24)	(23)
<b>Total net losses charged-off</b>	<b>\$ (362)</b>	<b>(446)</b>	<b>(575)</b>	<b>(501)</b>	<b>(704)</b>
<b>Net losses charged-off as a percent of average portfolio loans and leases:</b>					
Commercial and industrial loans	0.40 %	0.54	0.54	0.44	0.50
Commercial mortgage loans	0.23	0.38	0.34	0.56	1.02
Commercial construction loans	0.01	0.11	0.79	0.51	3.08
Commercial leases	0.10	0.04	0.01	0.04	0.22
<b>Total commercial loans and leases</b>	<b>0.33</b>	<b>0.46</b>	<b>0.48</b>	<b>0.44</b>	<b>0.63</b>
Residential mortgage loans	0.07	0.13	0.99	0.48	1.07
Home equity	0.33	0.46	0.65	1.02	1.51
Automobile loans	0.33	0.24	0.22	0.18	0.26
Credit card	3.69	3.60	3.60	3.67	3.79
Other consumer loans and leases	2.93	3.26	5.80	6.71	7.02
<b>Total consumer loans and leases</b>	<b>0.48</b>	<b>0.51</b>	<b>0.86</b>	<b>0.77</b>	<b>1.13</b>
<b>Total net losses charged-off as a percent of average portfolio loans and leases</b>	<b>0.39 %</b>	<b>0.48</b>	<b>0.64</b>	<b>0.58</b>	<b>0.85</b>

**Allowance for Credit Losses**

The allowance for credit losses is comprised of the ALLL and the reserve for unfunded commitments. The ALLL provides coverage for probable and estimable losses in the loan and lease portfolio. The Bancorp evaluates the ALLL each quarter to determine its adequacy to cover inherent losses. Several factors are taken into consideration in the determination of the overall ALLL, including an unallocated component. These factors include, but are not limited to, the overall risk profile of the loan and lease portfolios, net charge-off experience, the extent of impaired loans and leases, the level of nonaccrual loans and leases, the level of 90 days past due loans and leases and the overall level of the ALLL as a percent of portfolio loans and leases. The Bancorp also considers overall asset quality trends, credit administration and portfolio management practices, risk identification practices, credit policy and underwriting practices, overall portfolio growth, portfolio concentrations and current national and local economic conditions that might impact

the portfolio. Refer to the Critical Accounting Policies section of MD&A for more information.

During the year ended December 31, 2016, the Bancorp refined certain estimation techniques associated with the ALLL. Such refinements included the introduction of individual loss rate migration analyses for several commercial loan portfolio stratifications 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 Consolidated Balance Sheets. The methodology used to determine the adequacy of this reserve is similar to the Bancorp's methodology for

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determining the ALLL. The provision for unfunded commitments is included in other noninterest expense in the Consolidated Statements of Income.

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 increase by approximately \$190 million at December 31, 2016. In addition, the Bancorp's determination of the ALLL for residential mortgage and consumer loans and leases is sensitive to changes in estimated loss rates. In the event that estimated loss rates would increase by 10%, the ALLL for residential mortgage and consumer loans and leases would increase by approximately \$31 million at December 31, 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 62: CHANGES IN ALLOWANCE FOR CREDIT LOSSES**

For the years ended December 31 (\$ in millions)	2016	2015	2014	2013	2012
<b>ALLL:</b>					
Balance, beginning of period	\$ 1,272	1,322	1,582	1,854	2,255
Charge-offs	(456)	(542)	(679)	(637)	(837)
Recoveries of losses previously charged-off	94	96	104	136	133
Provision for loan and lease losses	343	396	315	229	303
<b>Balance, end of period</b>	<b>\$ 1,253</b>	<b>1,272</b>	<b>1,322</b>	<b>1,582</b>	<b>1,854</b>
<b>Reserve for unfunded commitments:</b>					
Balance, beginning of period	\$ 138	135	162	179	181
Provision for (benefit from) unfunded commitments	23	4	(27)	(17)	(2)
Charge-offs	-	(1)	-	-	-
<b>Balance, end of period</b>	<b>\$ 161</b>	<b>138</b>	<b>135</b>	<b>162</b>	<b>179</b>

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 at both December 31, 2016 and 2015 was 0.12%. The unallocated allowance was 9% of the total allowance as of both December 31, 2016 and December 31, 2015.

As shown in Table 63, the ALLL as a percent of portfolio loans and leases was 1.36% at December 31, 2016, compared to 1.37% at December 31, 2015. The ALLL was \$1.3 billion at both December 31, 2016 and 2015.

**TABLE 63: ATTRIBUTION OF ALLOWANCE FOR LOAN AND LEASE LOSSES TO PORTFOLIO LOANS AND LEASES**

As of December 31 (\$ in millions)	2016	2015	2014	2013	2012
<b>Attributed ALLL:</b>					
Commercial and industrial loans	\$ 718	652	673	767	802
Commercial mortgage loans	82	117	140	212	333
Commercial construction loans	16	24	17	26	33
Commercial leases	15	47	45	53	68
Residential mortgage loans	96	100	104	189	229
Home equity	58	67	87	94	143
Automobile loans	42	40	33	23	28
Credit card	102	99	104	92	87
Other consumer loans and leases	12	11	13	16	20
Unallocated	112	115	106	110	111
<b>Total attributed ALLL</b>	<b>\$ 1,253</b>	<b>1,272</b>	<b>1,322</b>	<b>1,582</b>	<b>1,854</b>
<b>Portfolio loans and leases:</b>					
Commercial and industrial loans	\$ 41,676	42,131	40,765	39,316	36,038
Commercial mortgage loans	6,899	6,957	7,399	8,066	9,103
Commercial construction loans	3,903	3,214	2,069	1,039	698
Commercial leases	3,974	3,854	3,720	3,625	3,549
Residential mortgage loans	15,051	13,716	12,389	12,680	12,017
Home equity	7,695	8,301	8,886	9,246	10,018
Automobile loans	9,983	11,493	12,037	11,984	11,972
Credit card	2,237	2,259	2,401	2,294	2,097
Other consumer loans and leases	680	657	418	364	290
<b>Total portfolio loans and leases</b>	<b>\$ 92,098</b>	<b>92,582</b>	<b>90,084</b>	<b>88,614</b>	<b>85,782</b>
<b>Attributed ALLL as a percent of respective portfolio loans and leases:</b>					
Commercial and industrial loans	1.72 %	1.55	1.65	1.95	2.23
Commercial mortgage loans	1.19	1.68	1.89	2.63	3.66
Commercial construction loans	0.41	0.75	0.82	2.50	4.73
Commercial leases	0.38	1.22	1.21	1.46	1.92
Residential mortgage loans	0.64	0.73	0.84	1.49	1.91
Home equity	0.75	0.81	0.98	1.02	1.43
Automobile loans	0.42	0.35	0.27	0.19	0.23
Credit card	4.56	4.38	4.33	4.01	4.15
Other consumer loans and leases	1.76	1.67	3.11	4.40	6.90
Unallocated (as a percent of portfolio loans and leases)	0.12	0.12	0.12	0.12	0.13
<b>Attributed ALLL as a percent of portfolio loans and leases</b>	<b>1.36 %</b>	<b>1.37</b>	<b>1.47</b>	<b>1.79</b>	<b>2.16</b>

**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. Interest rate risk, a component of market risk, primarily impacts the Bancorp's NII 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 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 may occur for any one or more of the following reasons:

- Assets and liabilities mature or reprice at different times;
- Short-term and long-term market interest rates change by different amounts; or
- The expected maturities of various assets or liabilities shorten or lengthen as interest rates change.

In addition to the direct impact of interest rate changes on NII, 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 employed to ensure that this risk is managed within the Bancorp's risk tolerance.

***Interest Rate Risk Management Oversight***

The Bancorp's ALCO, which includes senior management representatives and is accountable to the ERM, 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 NII 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

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projected assumptions, as well as changes in market conditions and management strategies.

The Bancorp's interest rate risk exposure is evaluated by measuring the anticipated change in NII over 12-month and 24-month horizons assuming 100 bps and 200 bps parallel ramped increases and a 75 bps parallel ramped decrease in interest rates. 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 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 above what is included in senior management's baseline projections for each 100 bps increase in

short-term market interest rates. These 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 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 December 31, 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 NII sensitivity profile and ALCO policy limits as of December 31:

**TABLE 64: ESTIMATED NII SENSITIVITY PROFILE AND ALCO POLICY LIMITS**

	2016				2015			
	% Change in NII (FTE)		ALCO Policy Limits		% Change in NII (FTE)		ALCO Policy Limits	
	12 Months	13-24 Months	12 Months	13-24 Months	12 Months	13-24 Months	12 Months	13-24 Months
Change in Interest Rates (bps)								
+200 Ramp over 12 months	<b>1.88</b>	<b>6.78</b>	<b>(4.00)</b>	<b>(6.00)</b>	2.05	5.93	(4.00)	(6.00)
+100 Ramp over 12 months	<b>1.13</b>	<b>4.32</b>	-	-	1.12	3.87	-	-
-75 Ramp over 6 months	<b>(5.77)</b>	<b>(10.62)</b>	-	-	N/A	N/A	-	-

At December 31, 2016, the Bancorp's NII would benefit in both year one and year two under the parallel rate ramp increases. The Bancorp's NII would decline in both year one and year two under the parallel 75 bps ramped decrease in interest rates. The NII 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 change in the sensitivity as of December 31, 2016 for the first 12 months compared to December 31, 2015 is primarily attributable to fixed-rate mortgage asset growth, partially offset by runoff in the

indirect automobile loan portfolio. The change in the sensitivity as of December 31, 2016 for the 13-24 month horizon compared to December 31, 2015 is also attributable to fixed-rate mortgage asset growth, partially offset by runoff in the indirect automobile loan portfolio, but sensitivity is modestly improved from December 31, 2015 due to projected core deposit growth.

Tables 65 and 66 provide information on the Bancorp's estimated NII sensitivity profile given changes to certain key deposit modeling assumptions.

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The following table shows the Bancorp's estimated NII sensitivity profile with a \$1.0 billion decrease and a \$1.0 billion increase in demand deposit balances as of December 31, 2016:

**TABLE 65: 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 Months	13-24 Months	12 Months	13-24 Months
Change in Interest Rates (bps)				
+200 Ramp over 12 months	1.61 %	6.24	2.15	7.31
+100 Ramp over 12 months	1.00	4.05	1.27	4.58

The following table shows the Bancorp's estimated NII sensitivity profile with a 25% increase and a 25% decrease to the deposit beta assumption as of December 31, 2016. The resulting weighted-average interest-bearing deposit betas included in this analysis are approximately 87% and 52%, respectively, as of December 31, 2016:

**TABLE 66: ESTIMATED NII SENSITIVITY WITH DEPOSIT BETA ASSUMPTION CHANGES**

	% Change in NII (FTE)			
	Betas 25% Higher		Betas 25% Lower	
	12 Months	13-24 Months	12 Months	13-24 Months
Change in Interest Rates (bps)				
+200 Ramp over 12 months	(1.56) %	(0.10)	5.32	13.66
+100 Ramp over 12 months	(0.59)	0.88	2.85	7.76

***Economic Value of Equity Sensitivity***

The Bancorp also uses EVE as a measurement tool in managing interest rate risk. Whereas the NII sensitivity analysis highlights the impact on forecasted NII on an FTE (non-GAAP) basis over one and two year time horizons, EVE 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 balance 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 December 31:

**TABLE 67: ESTIMATED EVE SENSITIVITY PROFILE**

Change in Interest Rates (bps)	2016		2015	
	Change in EVE	ALCO Policy Limit	Change in EVE	ALCO Policy Limit
+200 Shock	(4.96) %	(12.00)	(5.21)	(12.00)
+100 Shock	(2.00)	-	(2.30)	-
+25 Shock	(0.36)	-	(0.44)	-
-75 Shock	(0.14)	-	N/A	-

The EVE sensitivity to the +200 bps rising rate scenario is moderately negative at December 31, 2016, and is also slightly negative to a 75 bps decline in market rates. The +100 and +200 bps rising rate sensitivities are down slightly from the sensitivities at December 31, 2015. The decrease in risk is related to long-term debt issuances, run-off of indirect automobile loan balances and a shorter average life of certain fixed-rate commercial loans and leases. These items were partially offset by growth in the investment portfolio and fixed-rate mortgage loan 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 do 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.

***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

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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 derivative 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 13 of the Notes to 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 December 31, 2016:

**TABLE 68: PORTFOLIO LOANS AND LEASES EXPECTED CASH FLOWS**

(\$ in millions)	Less than 1 year	1-5 years	Over 5 years	Total
Commercial and industrial loans	\$ 22,633	17,561	1,482	41,676
Commercial mortgage loans	2,646	3,797	456	6,899
Commercial construction loans	1,290	2,576	37	3,903
Commercial leases	837	1,929	1,208	3,974
<b>Total commercial loans and leases</b>	<b>27,406</b>	<b>25,863</b>	<b>3,183</b>	<b>56,452</b>
Residential mortgage loans	2,651	6,258	6,142	15,051
Home equity	971	1,465	5,259	7,695
Automobile loans	4,527	5,342	114	9,983
Credit card	447	1,790	-	2,237
Other consumer loans and leases	512	129	39	680
<b>Total consumer loans and leases</b>	<b>9,108</b>	<b>14,984</b>	<b>11,554</b>	<b>35,646</b>
<b>Total portfolio loans and leases</b>	<b>\$ 36,514</b>	<b>40,847</b>	<b>14,737</b>	<b>92,098</b>

Additionally, the following table displays a summary of expected cash flows, excluding interest receivable, occurring after one year for both fixed and floating/adjustable-rate loans and leases as of December 31, 2016:

**TABLE 69: PORTFOLIO LOANS AND LEASES EXPECTED CASH FLOWS OCCURRING AFTER 1 YEAR**

(\$ in millions)	Interest Rate	
	Fixed	Floating or Adjustable
Commercial and industrial loans	\$ 2,515	16,528
Commercial mortgage loans	843	3,410
Commercial construction loans	13	2,600
Commercial leases	3,137	-
<b>Total commercial loans and leases</b>	<b>6,508</b>	<b>22,538</b>
Residential mortgage loans	9,382	3,018
Home equity	514	6,210
Automobile loans	5,399	57
Credit card	543	1,247
Other consumer loans and leases	22	146
<b>Total consumer loans and leases</b>	<b>15,860</b>	<b>10,678</b>
<b>Total portfolio loans and leases</b>	<b>\$ 22,368</b>	<b>33,216</b>

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

The net carrying amount of the residential MSR portfolio was \$744 million and \$784 million as of December 31, 2016 and 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.

Mortgage rates increased during the year ended December 31, 2016 which caused modeled prepayment speeds to decrease, leading to a recovery of temporary impairment on the servicing rights during the year. 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 gains of \$24 million and \$90 million on derivatives associated with its non-qualifying hedging strategy during the years ended December 31, 2016 and 2015, respectively. The Bancorp may adjust its hedging strategy to reflect its assessment of the composition of

its MSR portfolio, the cost of hedging and the anticipated effectiveness of the hedges given the economic environment. Refer to Note 12 of the Notes to 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 currency denominated loans. The derivatives are classified as free-standing instruments with the revaluation gain or loss being recorded in other noninterest income in the Consolidated Statements of Income. The balance of the Bancorp's foreign denominated loans at December 31, 2016 and December 31, 2015 was \$827 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 17 of the Notes to 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 68 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 \$31.2 billion of securities in the Bancorp's available-for-sale and other portfolio at December 31, 2016, \$4.1 billion in principal and interest is expected to be received in the next 12 months and an additional \$3.3 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 \$7.4 billion during the year ended December 31, 2016, compared to \$6.4 billion during the year ended December 31, 2015. For further information on the transfer of financial assets, refer to Note 12 of the Notes to Consolidated Financial Statements.

Core deposits have historically provided the Bancorp with a sizeable source of relatively stable and low cost funds. The Bancorp's average core deposits and average shareholders' equity funded 82% of its average total assets for both years ended December 31, 2016 and December 31, 2015. 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 December 31, 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 December 31, 2016, the Bancorp has approximately \$42.3 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 \$17.1 billion is available for issuance as of December 31, 2016. On March 15, 2016, the Bank issued and sold \$1.5 billion in aggregate principal amount 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 128% at December 31, 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 70. The ratings reflect the ratings agency's view on the Bancorp's and Bank's capacity to meet financial commitments.\*

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

**TABLE 70: AGENCY RATINGS**

As of February 24, 2017	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 of Directors. 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 ERM, which reports to the Risk and Compliance Committee of the Board of Directors.

### CAPITAL MANAGEMENT

Management regularly reviews the Bancorp's capital levels to help ensure it is appropriately positioned under various operating environments. The Bancorp has established a Capital Committee which is responsible for making capital plan recommendations to management. These recommendations are reviewed by the ERM 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 quarterly 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 December 31, 2016, the Bancorp's TruPS no longer qualified for Tier I capital, compared to \$13 million, or 1 bp of risk-weighted assets, which qualified as Tier I capital at December 31, 2015.

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The following table summarizes the Bancorp's capital ratios as of December 31:

**TABLE 71: CAPITAL RATIOS**

(\$ in millions)	2016	2015	2014	2013	2012
Average total Bancorp shareholders' equity as a percent of average assets	11.67 %	11.33 <sup>(b)</sup>	11.59 <sup>(b)</sup>	11.56 <sup>(b)</sup>	11.65 <sup>(b)</sup>
Tangible equity as a percent of tangible assets <sup>(a)(d)</sup>	9.82	9.55	9.41	9.44	9.17
Tangible common equity as a percent of tangible assets <sup>(a)(d)</sup>	8.87	8.59	8.43	8.63	8.83
	<b>Basel III Transitional<sup>(b)</sup></b>		<b>Basel I<sup>(c)</sup></b>		
CET1 capital	\$ 12,426	11,917	N/A	N/A	N/A
Tier I capital	13,756	13,260	12,764	12,094	11,685
Total regulatory capital	17,972	17,134	16,895	16,431	15,811
Risk-weighted assets	119,632	121,290 <sup>(e)</sup>	117,878 <sup>(e)</sup>	115,969 <sup>(e)</sup>	109,301 <sup>(e)</sup>
	<b>Basel III Fully Phased-In</b>				
CET1 capital <sup>(a)</sup>	10.29 %	9.72 <sup>(e)</sup>	N/A	N/A	N/A
	<b>Regulatory capital ratios:</b>				
CET1 capital	10.39 %	9.82 <sup>(e)</sup>	N/A	N/A	N/A
Tier I risk-based capital	11.50	10.93 <sup>(e)</sup>	10.83 <sup>(e)</sup>	10.43 <sup>(e)</sup>	10.69 <sup>(e)</sup>
Total risk-based capital	15.02	14.13 <sup>(e)</sup>	14.33 <sup>(e)</sup>	14.17 <sup>(e)</sup>	14.47 <sup>(e)</sup>
Tier I leverage (to quarterly average assets)	9.90	9.54 <sup>(e)</sup>	9.66 <sup>(e)</sup>	9.73 <sup>(e)</sup>	10.15 <sup>(e)</sup>

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

(d) Excludes unrealized gains and losses.

(e) 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 1 of the Notes to Consolidated Financial Statements for further information.

(f) Upon adoption of ASU 2015-03 on January 1, 2016, the Consolidated Balance Sheets for the years ended 2015, 2014, 2013 and 2012 were adjusted to reflect the reclassification of \$33, \$34, \$28 and \$52, respectively, of average debt issuance costs from average other assets to average long-term debt. For further information, refer to Note 1 of the Notes to Consolidated Financial Statements.

**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. Refer to Note 3 and Note 23 of the Notes to Consolidated Financial Statements for a discussion on the FRB's review of the capital plan, the FRB's non-objection to the Bancorp's proposed capital actions and the Bancorp's capital actions taken in 2016.

**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 \$0.53 and \$0.52 during the years ended December 31, 2016 and 2015, respectively. The Bancorp entered into or settled a number of accelerated share repurchase transactions during the years ended December 31, 2016 and 2015. Refer to Note 23 of the Notes to Consolidated Financial Statements for additional information on the accelerated share repurchases.

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The following table summarizes shares authorized for repurchase as part of publicly announced plans or programs:

**TABLE 72: SHARE REPURCHASES**

For the years ended December 31	2016	2015
Shares authorized for repurchase at January 1	30,572,513	73,180,368
Additional authorizations <sup>(a)</sup>	85,702,105	-
Share repurchases <sup>(b)</sup>	(34,633,221)	(42,607,855)
Shares authorized for repurchase at December 31	81,641,397	30,572,513
Average price paid per share <sup>(b)</sup>	\$ 18.86	19.60

(a) In March 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 transaction. The authorization does not include specific price targets or an expiration date. This share repurchase authorization replaces the Board's previous authorization pursuant to which approximately 14 million shares remained available for repurchase by the Bancorp.

(b) Excludes 2,430,179 and 1,930,233 shares repurchased during the years ended **December 31, 2016** and 2015, respectively, in connection with various employee compensation plans. These purchases are not included in the calculation for average price paid per share and do not count against the maximum number of shares that may yet be repurchased under the Board of Directors' authorization.

**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 Consolidated Balance Sheets. The Bancorp's off-balance sheet arrangements include commitments, contingent liabilities, guarantees and transactions with non-consolidated VIEs. A brief discussion of these transactions is as follows:

***Commitments***

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

***Guarantees and Contingent Liabilities***

For certain mortgage loans originated by the Bancorp, borrowers are required to obtain PMI provided by third-party insurers. In some instances, these insurers ceded a portion of the PMI premiums to the Bancorp, and the Bancorp provided reinsurance coverage within a specified range of the total PMI coverage. The Bancorp's reinsurance coverage typically ranged from 5% to 10% of the total PMI coverage. The Bancorp's maximum exposure in the event of nonperformance by the underlying borrowers is equivalent to the Bancorp's total outstanding reinsurance coverage, which was \$27 million at December 31, 2015. 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 Consolidated Balance Sheet. 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. During the fourth quarter of 2016, the final policies under the reinsurance agreement were terminated and as of December 31, 2016 the Bancorp no longer had any remaining exposure or reserves related to exposure within the reinsurance portfolio.

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

***Transactions with Non-consolidated VIEs***

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

**CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

The Bancorp has certain obligations and commitments to make future payments under contracts. The aggregate contractual obligations and commitments at December 31, 2016 are shown in Table 73. As of December 31, 2016, the Bancorp has unrecognized tax benefits that, if recognized, would impact the effective tax rate

in future periods. Due to the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, all uncertain tax liabilities that have not been paid have been excluded from the following table. For further detail on the impact of income taxes, refer to Note 20 of the Notes to Consolidated Financial Statements.

**TABLE 73: CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

As of December 31, 2016 (\$ in millions)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Contractually obligated payments due by period:					
Deposits with no stated maturity <sup>(a)</sup>	\$ 97,577	-	-	-	97,577
Long-term debt <sup>(b)</sup>	1,156	5,924	3,839	3,469	14,388
Time deposits <sup>(c)</sup>	2,173	2,782	1,274	15	6,244
Short-term borrowings <sup>(d)</sup>	3,667	-	-	-	3,667
Forward contracts related to residential mortgage loans held for sale <sup>(d)</sup>	1,823	-	-	-	1,823
Noncancelable operating lease obligations <sup>(e)</sup>	88	161	117	210	576
Partnership investment commitments <sup>(e)</sup>	182	102	36	37	357
Pension benefit payments <sup>(e)</sup>	18	33	32	77	160
Purchase obligations and capital expenditures <sup>(e)</sup>	49	34	3	-	86
Capital lease obligations	6	11	1	1	19
<b>Total contractually obligated payments due by period</b>	<b>\$ 106,739</b>	<b>9,047</b>	<b>5,302</b>	<b>3,809</b>	<b>124,897</b>
Other commitments by expiration period:					
Commitments to extend credit <sup>(f)</sup>	\$ 29,355	15,388	15,702	7,523	67,968
Letters of credit <sup>(k)</sup>	1,387	814	350	32	2,583
<b>Total other commitments by expiration period</b>	<b>\$ 30,742</b>	<b>16,202</b>	<b>16,052</b>	<b>7,555</b>	<b>70,551</b>

(a) Includes demand, interest checking, savings, money market and foreign office deposits. For additional information, refer to the Deposits subsection of the Balance Sheet Analysis section of MD&A.

(b) Interest-bearing obligations are principally used to fund interest-earning assets. As such, interest charges on contractual obligations were excluded from reported amounts, as the potential cash outflows would have corresponding cash inflows from interest-earning assets. Refer to Note 16 of the Notes to Consolidated Financial Statements for additional information on these debt instruments.

(c) Includes other time deposits and certificates \$100,000 and over. For additional information, refer to the Deposits subsection of the Balance Sheet Analysis section of MD&A.

(d) Refer to Note 13 of the Notes to Consolidated Financial Statements for additional information on forward contracts to sell residential mortgage loans.

(e) Includes federal funds purchased and borrowings with an original maturity of less than one year. For additional information, refer to Note 15 of the Notes to Consolidated Financial Statements.

(f) Includes rental commitments.

(g) Includes low-income housing and historic tax investments. For additional information, refer to Note 11 of the Notes to Consolidated Financial Statements.

(h) Represents agreements to purchase goods or services and includes commitments to various general contractors for work related to banking center construction.

(i) Refer to Note 21 of the Notes to Consolidated Financial Statements for additional information on pension obligations.

(j) Commitments to extend credit are agreements to lend, typically having fixed expiration dates or other termination clauses that may require payment of a fee. Many of the commitments to extend credit may expire without being drawn upon. The total commitment amounts include capital commitments for private equity investments and do not necessarily represent future cash flow requirements. For additional information, refer to Note 17 of the Notes to Consolidated Financial Statements.

(k) Letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. For additional information, refer to Note 17 of the Notes to Consolidated Financial Statements.

## MANAGEMENT'S ASSESSMENT AS TO THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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 management on a timely basis. 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 5 (Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities).

### MANAGEMENT'S ASSESSMENT AS TO THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Fifth Third Bancorp is responsible for establishing and maintaining adequate internal control, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Bancorp's management assessed the effectiveness of the Bancorp's internal control over financial reporting as of December 31, 2016. Management's assessment is based on the criteria established in the *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and was designed to provide reasonable assurance that the Bancorp maintained effective internal control over financial reporting as of December 31, 2016. Based on this assessment, management believes that the Bancorp maintained effective internal control over financial reporting as of December 31, 2016. The Bancorp's independent registered public accounting firm, that audited the Bancorp's consolidated financial statements included in this annual report, has issued an audit report on our internal control over financial reporting as of December 31, 2016. This report appears on page 93 of the annual report.

### CHANGES IN INTERNAL CONTROLS

The Bancorp's management also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the year 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 year covered by this report.



Greg D. Carmichael  
President and Chief Executive Officer  
February 24, 2017



Tayfun Tuzun  
Executive Vice President and Chief Financial Officer  
February 24, 2017

**REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of Fifth Third Bancorp:

We have audited the internal control over financial reporting of Fifth Third Bancorp and subsidiaries (the “Bancorp”) as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Assessment as to the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bancorp’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control— Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2016 of the Bancorp and our report dated February 24, 2017 expressed an unqualified opinion on those consolidated financial statements.



Cincinnati, Ohio  
February 24, 2017

**REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of Fifth Third Bancorp:

We have audited the accompanying consolidated balance sheets of Fifth Third Bancorp and subsidiaries (the “Bancorp”) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Bancorp’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fifth Third Bancorp and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bancorp’s internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2017 expressed an unqualified opinion on the Bancorp’s internal control over financial reporting.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in dark ink and is positioned above the typed name of the firm.

Cincinnati, Ohio  
February 24, 2017



**CONSOLIDATED BALANCE SHEETS**

As of December 31 (\$ in millions, except share data)	2016	2015
<b>Assets</b>		
Cash and due from banks <sup>(a)</sup>	\$ 2,392	2,540
Available-for-sale and other securities <sup>(b)</sup>	31,183	29,044
Held-to-maturity securities <sup>(c)</sup>	26	70
Trading securities	410	386
Other short-term investments	2,754	2,671
Loans held for sale <sup>(d)</sup>	751	903
Portfolio loans and leases <sup>(e)(f)</sup>	92,098	92,582
Allowance for loan and lease losses <sup>(g)</sup>	(1,253)	(1,272)
Portfolio loans and leases, net	90,845	91,310
Bank premises and equipment <sup>(h)</sup>	2,065	2,239
Operating lease equipment	738	707
Goodwill	2,416	2,416
Intangible assets	9	12
Servicing rights	744	785
Other assets <sup>(i)</sup>	7,844	7,965
<b>Total Assets</b>	<b>\$ 142,177</b>	<b>141,048</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing deposits	\$ 35,782	36,267
Interest-bearing deposits	68,039	66,938
Total deposits <sup>(j)</sup>	103,821	103,205
Federal funds purchased	132	151
Other short-term borrowings	3,535	1,507
Accrued taxes, interest and expenses	1,800	2,164
Other liabilities <sup>(k)</sup>	2,269	2,341
Long-term debt <sup>(l)</sup>	14,388	15,810
<b>Total Liabilities</b>	<b>\$ 125,945</b>	<b>125,178</b>
<b>Equity</b>		
Common stock <sup>(m)</sup>	\$ 2,051	2,051
Preferred stock <sup>(n)</sup>	1,331	1,331
Capital surplus	2,756	2,666
Retained earnings	13,441	12,358
Accumulated other comprehensive income	59	197
Treasury stock <sup>(o)</sup>	(3,433)	(2,764)
Total Bancorp shareholders' equity	\$ 16,205	15,839
Noncontrolling interests	27	31
<b>Total Equity</b>	<b>16,232</b>	<b>15,870</b>
<b>Total Liabilities and Equity</b>	<b>\$ 142,177</b>	<b>141,048</b>

(a) Includes \$85 and \$152 of cash and due from banks, \$1,216 and \$2,537 of portfolio loans and leases, \$(26) and \$(28) of A.I.L., \$9 and \$14 of other assets, \$3 and \$3 of other liabilities and \$1,094 and \$2,487 of long-term debt from consolidated VIEs that are included in their respective captions above at December 31, 2016 and 2015, respectively. For further information, refer to Note 11.

(b) Amortized cost of \$31,024 and \$28,678 at December 31, 2016 and 2015, respectively.

(c) Fair value of \$26 and \$70 at December 31, 2016 and 2015, respectively.

(d) Includes \$686 and \$519 of residential mortgage loans held for sale measured at fair value at December 31, 2016 and 2015, respectively.

(e) Includes \$143 and \$167 of residential mortgage loans measured at fair value at December 31, 2016 and 2015, respectively.

(f) Includes \$39 and \$81 of bank premises and equipment held for sale at December 31, 2016 and 2015, respectively. For further information refer to Note 7.

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

(h) Common shares: Stated value \$2.22 per share; authorized 2 billion; outstanding at December 31, 2016 – 750,479,299 (excludes 173,413,282 treasury shares), 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 December 31, 2016 and 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 December 31, 2016 and 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 December 31, 2016 and 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 December 31, 2016 and 2015.

(j) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 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 1.

Refer to the Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31 (\$ in millions, except share data)	2016	2015	2014
<b>Interest Income</b>			
Interest and fees on loans and leases	\$ 3,233	3,151	3,298
Interest on securities	952	869	724
Interest on other short-term investments	8	8	8
Total interest income	4,193	4,028	4,030
<b>Interest Expense</b>			
Interest on deposits	205	186	202
Interest on federal funds purchased	2	1	-
Interest on other short-term borrowings	10	2	2
Interest on long-term debt	361	306	247
Total interest expense	578	495	451
<b>Net Interest Income</b>	3,615	3,533	3,579
Provision for loan and lease losses	343	396	315
<b>Net Interest Income After Provision for Loan and Lease Losses</b>	3,272	3,137	3,264
<b>Noninterest Income</b>			
Service charges on deposits	558	563	560
Corporate banking revenue	432	384	430
Wealth and asset management revenue	404	418	407
Card and processing revenue	319	302	295
Mortgage banking net revenue	285	348	310
Other noninterest income	688	979	450
Securities gains, net	10	9	21
Total noninterest income	2,696	3,003	2,473
<b>Noninterest Expense</b>			
Salaries, wages and incentives	1,612	1,525	1,449
Employee benefits	339	323	334
Net occupancy expense	299	321	313
Technology and communications	234	224	212
Card and processing expense	132	153	141
Equipment expense	118	124	121
Other noninterest expense	1,169	1,105	1,139
Total noninterest expense	3,903	3,775	3,709
<b>Income Before Income Taxes</b>	2,065	2,365	2,028
Applicable income tax expense	505	659	545
<b>Net Income</b>	1,560	1,706	1,483
Less: Net income attributable to noncontrolling interests	(4)	(6)	2
<b>Net Income Attributable to Bancorp</b>	1,564	1,712	1,481
Dividends on preferred stock	75	75	67
<b>Net Income Available to Common Shareholders</b>	\$ 1,489	1,637	1,414
<b>Earnings per share - basic</b>	\$ 1.95	2.03	1.68
<b>Earnings per share - diluted</b>	\$ 1.93	2.01	1.66
<b>Average common shares outstanding - basic</b>	757,432,291	798,628,173	833,116,349
<b>Average common shares outstanding - diluted</b>	764,495,353	807,658,669	842,967,356
<b>Cash dividends declared per common share</b>	\$ 0.53	0.52	0.51

Refer to the Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Net Income</b>	<b>\$ 1,560</b>	1,706	1,483
<b>Other Comprehensive (Loss) Income, Net of Tax:</b>			
Unrealized gains on available-for-sale securities:			
Unrealized holding (losses) gains arising during the year	(130)	(227)	378
Reclassification adjustment for net gains included in net income	(7)	(10)	(24)
Unrealized gains on cash flow hedge derivatives:			
Unrealized holding gains arising during the year	19	48	39
Reclassification adjustment for net gains included in net income	(31)	(49)	(29)
Defined benefit pension plans, net:			
Net actuarial loss arising during the year	(1)	(5)	(25)
Reclassification of amounts to net periodic benefit costs	12	11	8
Other comprehensive (loss) income, net of tax	(138)	(232)	347
<b>Comprehensive Income</b>	<b>1,422</b>	1,474	1,830
Less: Comprehensive income attributable to noncontrolling interests	(4)	(6)	2
<b>Comprehensive Income Attributable to Bancorp</b>	<b>\$ 1,426</b>	1,480	1,828

*Refer to the Notes to Consolidated Financial Statements.*

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(\$ in millions, except per share data)	Bancorp Shareholders' Equity								
	Common Stock	Preferred Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Bancorp Shareholders' Equity	Non-Controlling Interests	Total Equity
<b>Balance at December 31, 2013</b>	\$ 2,051	1,034	2,561	10,156	82	(1,295)	14,589	37	14,626
Net income				1,481			1,481	2	1,483
Other comprehensive income, net of tax					347		347		347
Cash dividends declared:									
Common stock at \$0.51 per share				(427)			(427)		(427)
Preferred stock <sup>(a)</sup>				(67)			(67)		(67)
Shares acquired for treasury			72			(726)	(654)		(654)
Issuance of preferred stock		297					297		297
Impact of stock transactions under stock compensation plans, net			13			47	60		60
Other				(2)		2	-		-
<b>Balance at December 31, 2014</b>	\$ 2,051	1,331	2,646	11,141	429	(1,972)	15,626	39	15,665
Net income				1,712			1,712	(6)	1,706
Other comprehensive loss, net of tax					(232)		(232)		(232)
Cash dividends declared:									
Common stock at \$0.52 per share				(417)			(417)		(417)
Preferred stock <sup>(b)</sup>				(75)			(75)		(75)
Shares acquired for treasury			(3)			(847)	(850)		(850)
Impact of stock transactions under stock compensation plans, net			23			52	75		75
Other				(3)		3	-	(2)	(2)
<b>Balance at December 31, 2015</b>	\$ 2,051	1,331	2,666	12,358	197	(2,764)	15,839	31	15,870
Net income				1,564			1,564	(4)	1,560
Other comprehensive loss, net of tax					(138)		(138)		(138)
Cash dividends declared:									
Common stock at \$0.53 per share				(405)			(405)		(405)
Preferred stock <sup>(c)</sup>				(75)			(75)		(75)
Shares acquired for treasury			7			(668)	(661)		(661)
Impact of stock transactions under stock compensation plans, net			83	1		(4)	80		80
Other				(2)		3	1		1
<b>Balance at December 31, 2016</b>	\$ 2,051	1,331	2,756	13,441	59	(3,433)	16,205	27	16,232

(a) For the year ended December 31, 2014, dividends were \$1,275.00 per preferred share for Perpetual Preferred Stock, Series H, \$1,757.46 per preferred share for Perpetual Preferred Stock, Series I and \$391.32 per preferred share for Perpetual Preferred Stock, Series J.

(b) For the year ended December 31, 2015, dividends were \$1,275.00 per preferred share for Perpetual Preferred Stock, Series H, \$1,656.24 per preferred share for Perpetual Preferred Stock, Series I and \$1,225.00 per preferred share for Perpetual Preferred Stock, Series J.

(c) For the year ended **December 31, 2016**, dividends were **\$1,275.00** per preferred share for Perpetual Preferred Stock, Series H, **\$1,656.24** 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 Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Operating Activities</b>			
Net income	\$ 1,560	1,706	1,483
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	343	396	315
Depreciation, amortization and accretion	453	441	414
Stock-based compensation expense	111	100	83
(Benefit from) provision for deferred income taxes	(148)	(71)	79
Securities gains, net	(7)	(5)	(21)
(Recovery of) provision for MSR impairment	(7)	(4)	65
Net gains on sales of loans and fair value adjustments on loans held for sale	(101)	(98)	(67)
Net losses on disposition and impairment of bank premises and equipment	13	101	19
Gains on sales of certain retail branch operations	(19)	-	-
Net losses on disposition and impairment of operating lease equipment	9	33	-
Gain on sale of Vantiv, Inc. shares	-	(331)	(125)
Gain on the TRA associated with Vantiv, Inc.	(197)	(31)	(23)
Proceeds from sales of loans held for sale	6,895	5,102	5,477
Loans originated for sale, net of repayments	(7,014)	(5,142)	(4,874)
Dividends representing return on equity method investments	28	25	42
Net change in:			
Trading securities	(23)	(34)	(16)
Other assets	351	94	(221)
Accrued taxes, interest and expenses	(157)	327	1
Other liabilities	24	(191)	(555)
<b>Net Cash Provided by Operating Activities</b>	<b>2,114</b>	<b>2,418</b>	<b>2,076</b>
<b>Investing Activities</b>			
Proceeds from sales:			
Available-for-sale and other securities	18,280	16,828	5,234
Loans	360	741	147
Bank premises and equipment	82	37	24
Proceeds from repayments / maturities:			
Available-for-sale and other securities	3,776	2,865	2,265
Held-to-maturity securities	44	117	20
Purchases:			
Available-for-sale and other securities	(24,636)	(26,733)	(10,691)
Bank premises and equipment	(186)	(164)	(216)
Proceeds from sales and dividends representing return of equity method investments	64	458	279
Net cash paid on sales of certain retail branch operations	(219)	-	-
Net change in:			
Other short-term investments	(83)	5,243	(2,798)
Loans and leases	(243)	(3,238)	(3,136)
Operating lease equipment	(126)	(85)	(66)
<b>Net Cash Used in Investing Activities</b>	<b>(2,887)</b>	<b>(3,931)</b>	<b>(8,938)</b>
<b>Financing Activities</b>			
Net change in:			
Deposits	1,146	1,493	2,437
Federal funds purchased	(19)	7	(140)
Other short-term borrowings	2,028	(49)	176
Dividends paid on common stock	(402)	(422)	(423)
Dividends paid on preferred stock	(52)	(75)	(67)
Proceeds from issuance of long-term debt	3,735	3,091	6,570
Repayment of long-term debt	(5,119)	(2,205)	(1,399)
Repurchases of treasury stock and related forward contracts	(661)	(850)	(654)
Issuance of preferred stock	-	-	297
Other	(31)	(28)	(22)
<b>Net Cash Provided by Financing Activities</b>	<b>625</b>	<b>962</b>	<b>6,775</b>
<b>Decrease in Cash and Due from Banks</b>	<b>(148)</b>	<b>(551)</b>	<b>(87)</b>
<b>Cash and Due from Banks at Beginning of Period</b>	<b>2,540</b>	<b>3,091</b>	<b>3,178</b>
<b>Cash and Due from Banks at End of Period</b>	<b>\$ 2,392</b>	<b>2,540</b>	<b>3,091</b>

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

### *Nature of Operations*

Fifth Third Bancorp, an Ohio corporation, conducts its principal lending, deposit gathering, transaction processing and service advisory activities through its banking and non-banking subsidiaries from banking centers located throughout the Midwestern and Southeastern regions of the United States.

### *Basis of Presentation*

The 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 of accounting and not consolidated. The investments in 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 among consolidated entities have been eliminated.

### *Use of Estimates*

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.

### *Cash and Due From Banks*

Cash and due from banks consist of currency and coin, cash items in the process of collection and due from banks. Currency and coin includes both U.S. and foreign currency owned and held at Fifth Third offices and that is in-transit to the FRB. Cash items in the process of collection include checks and drafts that are drawn on another depository institution or the FRB that are payable immediately upon presentation in the U.S. Balances due from banks include noninterest-bearing balances that are funds on deposit at other depository institutions or the FRB.

### *Securities*

Securities are classified as held-to-maturity, available-for-sale or trading on the date of purchase. Only those securities which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. 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 are classified as trading when bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of related deferred income taxes, included in OCI. Trading securities are reported at fair value with unrealized gains and losses included in noninterest income. The fair value of a security is determined based on quoted market prices. If quoted market prices are not available, fair value is determined based on quoted prices of similar instruments or DCF models that incorporate market inputs and assumptions including discount rates, prepayment speeds and loss rates. Realized securities gains or losses are reported within noninterest income in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method.

Available-for-sale and held-to-maturity securities with unrealized losses are reviewed quarterly for possible OTTI. For debt securities, if the Bancorp intends to sell the debt security or will more likely than not be required to sell the debt security before

recovery of the entire amortized cost basis, then an OTTI has occurred. However, even if the Bancorp does not intend to sell the debt security and will not likely be required to sell the debt security before recovery of its entire amortized cost basis, the Bancorp must evaluate expected cash flows to be received and determine if a credit loss has occurred. In the event of a credit loss, the credit component of the impairment is recognized within noninterest income and the non-credit component is recognized through OCI. For equity securities, the Bancorp's management evaluates the securities in an unrealized loss position in the available-for-sale portfolio for OTTI on the basis of the duration of the decline in value of the security and severity of that decline as well as the Bancorp's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in the market value. If it is determined that the impairment on an equity security is other-than-temporary, an impairment loss equal to the difference between the amortized cost of the security and its fair value is recognized within noninterest income.

### *Portfolio Loans and Leases*

#### *Basis of Accounting*

Portfolio loans and leases are generally reported at the principal amount outstanding, net of unearned income, deferred direct loan origination fees and costs and any direct principal charge-offs. Direct loan origination fees and costs are deferred and the net amount is amortized over the estimated life of the related loans as a yield adjustment. Interest income is recognized based on the principal balance outstanding computed using the effective interest method.

Loans acquired by the Bancorp through a purchase business combination are recorded at fair value as of the acquisition date. The Bancorp does not carry over the acquired company's ALLL, nor does the Bancorp add to its existing ALLL as part of purchase accounting.

Purchased loans are evaluated for evidence of credit deterioration at acquisition and recorded at their initial fair value. For loans acquired with no evidence of credit deterioration, the fair value discount or premium is amortized over the contractual life of the loan as an adjustment to yield. For loans acquired with evidence of credit deterioration, the Bancorp determines at the acquisition date the excess of the loan's contractually required payments over all cash flows expected to be collected as an amount that should not be accreted into interest income (nonaccretable difference). The remaining amount representing the difference in the expected cash flows of acquired loans and the initial investment in the acquired loans is accreted into interest income over the remaining life of the loan or pool of loans (accretable yield). Subsequent to the acquisition date, increases in expected cash flows over those expected at the acquisition date are recognized prospectively as interest income over the remaining life of the loan. The present value of any decreases in expected cash flows resulting directly from a change in the contractual interest rate are recognized prospectively as a reduction of the accretable yield. The present value of any decreases in expected cash flows after the acquisition date as a result of credit deterioration is recognized by recording an ALLL or a direct charge-off. Subsequent to the acquisition date, the methods utilized to estimate the required ALLL are similar to originated loans. This method of accounting for loans acquired with deteriorated credit quality does not apply to loans carried at fair value, residential mortgage loans held for sale and loans under revolving credit agreements.

The Bancorp's lease portfolio consists of both direct financing and leveraged leases. Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

leased property, less unearned income. Interest income on direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

Leveraged leases are carried at the aggregate of lease payments (less nonrecourse debt payments) plus estimated residual value of the leased property, less unearned income. Interest income on leveraged leases is recognized over the term of the lease to achieve a constant rate of return on the outstanding investment in the lease, net of the related deferred income tax liability, in the years in which the net investment is positive.

### *Nonaccrual Loans and Leases*

When a loan is placed on nonaccrual status, the accrual of interest, amortization of loan premium, accretion of loan discount and amortization/accretion of deferred net direct loan origination fees are discontinued and all previously accrued and unpaid interest is charged against income. Commercial loans are placed on nonaccrual status when there is a clear indication that the borrower's cash flows may not be sufficient to meet payments as they become due. Such loans are also placed on nonaccrual status when the principal or interest is past due 90 days or more, unless the loan is both well-secured and in the process of collection. The Bancorp classifies residential mortgage loans that have principal and interest payments that have become past due 150 days as nonaccrual unless the loan is both well-secured and in the process of collection. Residential mortgage loans may stay on nonaccrual status for an extended time as the foreclosure process typically lasts longer than 180 days. Home equity loans and lines of credit are reported on nonaccrual status if principal or interest has been in default for 90 days or more unless the loan is both well-secured and in the process of collection. Home equity loans and lines of credit that have been in default for 60 days or more are also reported on nonaccrual status if the senior lien has been in default 120 days or more, unless the loan is both well secured and in the process of collection. Residential mortgage, home equity, automobile and other consumer loans and leases that have been modified in a TDR and subsequently become past due 90 days are placed on nonaccrual status unless the loan is both well-secured and in the process of collection. Commercial and credit card loans that have been modified in a TDR are classified as nonaccrual unless such loans have sustained repayment performance of six months or more and are reasonably assured of repayment in accordance with the restructured terms. Well-secured loans are collateralized by perfected security interests in real and/or personal property for which the Bancorp estimates proceeds from the sale would be sufficient to recover the outstanding principal and accrued interest balance of the loan and pay all costs to sell the collateral. The Bancorp considers a loan in the process of collection if collection efforts or legal action is proceeding and the Bancorp expects to collect funds sufficient to bring the loan current or recover the entire outstanding principal and accrued interest balance.

Nonaccrual commercial loans and nonaccrual credit card loans are generally accounted for on the cost recovery method. The Bancorp believes the cost recovery method is appropriate for nonaccrual commercial loans and nonaccrual credit card loans because the assessment of collectability of the remaining recorded investment of these loans involves a high degree of subjectivity and uncertainty due to the nature or absence of underlying collateral. Under the cost recovery method, any payments received are applied to reduce principal. Once the entire recorded investment is collected, additional payments received are treated as recoveries of amounts previously charged-off until recovered in full, and any subsequent payments are treated as interest income. Nonaccrual residential mortgage loans and other nonaccrual consumer loans are generally accounted for on the cash basis method. The Bancorp

believes the cash basis method is appropriate for nonaccrual residential mortgage and other nonaccrual consumer loans because such loans have generally been written down to estimated collateral values and the collectability of the remaining investment involves only an assessment of the fair value of the underlying collateral, which can be measured more objectively with a lesser degree of uncertainty than assessments of typical commercial loan collateral. Under the cash basis method, interest income is recognized when cash is received, to the extent such income would have been accrued on the loan's remaining balance at the contractual rate. Nonaccrual loans may be returned to accrual status when all delinquent interest and principal payments become current in accordance with the loan agreement and are reasonably assured of repayment in accordance with the contractual terms of the loan agreement, or when the loan is both well-secured and in the process of collection.

Commercial loans on nonaccrual status, including those modified in a TDR, as well as criticized commercial loans with aggregate borrower relationships exceeding \$1 million, are subject to an individual review to identify charge-offs. The Bancorp does not have an established delinquency threshold for partially or fully charging off commercial loans. Residential mortgage loans, home equity loans and lines of credit and credit card loans that have principal and interest payments that have become past due 180 days are assessed for a charge-off to the ALLL, unless such loans are both well-secured and in the process of collection. Home equity loans and lines of credit are also assessed for charge-off to the ALLL when such loans or lines of credit have become past due 120 days if the senior lien is also 120 days past due, unless such loans are both well-secured and in the process of collection. Automobile and other consumer loans and leases that have principal and interest payments that have become past due 120 days are assessed for a charge-off to the ALLL, unless such loans are both well-secured and in the process of collection.

### *Restructured Loans and Leases*

A loan is accounted for as a TDR if the Bancorp, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. A TDR typically involves a modification of terms such as a reduction of the stated interest rate or remaining principal amount of the loan, a reduction of accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan with similar risk. In 2012, the OCC, a national bank regulatory agency, issued interpretive guidance that requires non-reaffirmed loans included in Chapter 7 bankruptcy filings to be accounted for as nonperforming TDRs and collateral dependent loans regardless of their payment history and capacity to pay in the future. The Bancorp's banking subsidiary is a state chartered bank which therefore is not subject to guidance of the OCC. The Bancorp does not consider the bankruptcy court's discharge of the borrower's debt a concession when the discharged debt is not reaffirmed and as such, these loans are classified as TDRs only if one or more of the previously mentioned concessions are granted.

The Bancorp measures the impairment loss of a TDR based on the difference between the original loan's carrying amount and the present value of expected future cash flows discounted at the original, effective yield of the loan. Residential mortgage loans, home equity loans, automobile loans and other consumer loans modified as part of a TDR are maintained on accrual status, provided there is reasonable assurance of repayment and of performance according to the modified terms based upon a current, well-documented credit evaluation. Commercial loans and credit card loans modified as part of a TDR are maintained on accrual status provided there is a sustained payment history of six months

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

or more prior to the modification in accordance with the modified terms and collectability is reasonably assured for all remaining contractual payments under the modified terms. TDRs of commercial loans and credit cards that do not have a sustained payment history of six months or more in accordance with their modified terms remain on nonaccrual status until a six month payment history is sustained. In certain cases, commercial TDRs on nonaccrual status may be accounted for using the cash basis method for income recognition, provided that full repayment of principal under the modified terms of the loan is reasonably assured.

### *Impaired Loans and Leases*

A loan is considered to be impaired when, based on current information and events, it is probable that the Bancorp will be unable to collect all amounts due (including both principal and interest) according to the contractual terms of the loan agreement. Impaired loans generally consist of nonaccrual loans and leases, loans modified in a TDR and loans over \$1 million that are currently on accrual status and not yet modified in a TDR, but for which the Bancorp has determined that it is probable that it will grant a payment concession in the near term due to the borrower's financial difficulties. For loans modified in a TDR, the contractual terms of the loan agreement refer to the terms specified in the original loan agreement. A loan restructured in a TDR is no longer considered impaired in years after the restructuring if the restructuring agreement specifies a rate equal to or greater than the rate the Bancorp was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan is not impaired based on the terms specified by the restructuring agreement. Refer to the ALLL section for discussion regarding the Bancorp's methodology for identifying impaired loans and determination of the need for a loss accrual.

### *Loans Held for Sale*

Loans held for sale primarily represent conforming fixed-rate residential mortgage loans originated or acquired with the intent to sell in the secondary market and jumbo residential mortgage loans, commercial loans, other residential mortgage loans and other consumer loans that management has the intent to sell. Loans held for sale may be carried at the lower of cost or fair value, or carried at fair value where the Bancorp has elected the fair value option of accounting under U.S. GAAP. The Bancorp has elected to measure certain residential mortgage loans originated as held for sale under the fair value option. For loans in which the Bancorp has not elected the fair value option, the lower of cost or fair value is determined at the individual loan level.

The fair value of residential mortgage loans held for sale for which the fair value election has been made 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 effects 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. These fair value marks are recorded as a component of noninterest income in mortgage banking net revenue. The Bancorp generally has commitments to sell residential mortgage loans held for sale in the secondary market. Gains or losses on sales are recognized in mortgage banking net revenue.

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,

thereafter, reported within the Bancorp's residential mortgage class of portfolio loans and leases. In such cases, the residential mortgage loans will continue to be measured at fair value, which is based on mortgage-backed securities prices, interest rate risk and an internally developed credit component.

Loans held for sale are placed on nonaccrual status consistent with the Bancorp's nonaccrual policy for portfolio loans and leases.

### *Other Real Estate Owned*

OREO, which is included in other assets, represents property acquired through foreclosure or other proceedings and is carried at the lower of cost or fair value, less costs to sell. All OREO property is periodically evaluated for impairment and decreases in carrying value are recognized as reductions in other noninterest income in the Consolidated Statements of Income. For government-guaranteed mortgage loans, upon foreclosure, a separate other receivable is recognized if certain conditions are met for the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This receivable is also included in other assets, separate from OREO, in the Consolidated Balance Sheets.

### *ALLL*

The Bancorp disaggregates its portfolio loans and leases into portfolio segments for purposes of determining the ALLL. The Bancorp's portfolio segments include commercial, residential mortgage and consumer. The Bancorp further disaggregates its portfolio segments into classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. Classes within the commercial portfolio segment include commercial and industrial, commercial mortgage owner-occupied, commercial mortgage nonowner-occupied, commercial construction and commercial leasing. The residential mortgage portfolio segment is also considered a class. Classes within the consumer portfolio segment include home equity, automobile, credit card and other consumer loans and leases. For an analysis of the Bancorp's ALLL by portfolio segment and credit quality information by class, refer to Note 6.

The Bancorp maintains the ALLL to absorb probable loan and lease losses inherent in its portfolio segments. The ALLL is maintained at a level the Bancorp considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectability and historical loss experience of loans and leases. Credit losses are charged and recoveries are credited to the ALLL. Provisions for loan and lease losses are based on the Bancorp's review of the historical credit loss experience and such factors that, in management's judgment, deserve consideration under existing economic conditions in estimating probable credit losses. The Bancorp's strategy for credit risk management includes a combination of conservative exposure limits significantly below legal lending limits and conservative underwriting, documentation and collections standards. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

The Bancorp's methodology for determining the ALLL is based on historical loss rates, current credit grades, specific allocation on loans modified in a TDR and impaired commercial credits above specified thresholds and other qualitative adjustments. Allowances on individual commercial loans, TDRs and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience. An unallocated allowance is maintained to recognize the imprecision in estimating and measuring losses when evaluating allowances for pools of loans.



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Larger commercial loans included within aggregate borrower relationship balances exceeding \$1 million that exhibit probable or observed credit weaknesses, as well as loans that have been modified in a TDR, 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. Other factors may include the industry and geographic region 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. When individual loans are impaired, allowances are determined based on management's estimate of the borrower's ability to repay the loan given the availability of collateral and other sources of cash flow, as well as an evaluation of legal options available to the Bancorp. Allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, fair value of the underlying collateral or readily observable secondary market values. The Bancorp evaluates the collectability of both principal and interest when assessing the need for a loss accrual.

Historical credit loss rates are applied to commercial loans that are not impaired or are impaired, but smaller than the established threshold of \$1 million and thus not subject to specific allowance allocations. The loss rates are derived from migration analyses for several portfolio stratifications, which track the historical net charge-off experience sustained on loans according to their internal risk grade. The risk grading system utilized for allowance analysis purposes encompasses ten categories.

During 2016, the Bancorp refined its estimation techniques for the ALLL to introduce individual loss rate migration analyses for several commercial loan portfolio stratifications 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.

Homogenous loans and leases in the residential mortgage and consumer portfolio segments are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks and allowances are established based on the expected net charge-offs. Loss rates are based on the trailing twelve month net charge-off history by loan category. Historical loss rates may be adjusted for certain prescriptive and qualitative factors that, in management's judgment, are necessary to reflect losses inherent in the portfolio. The prescriptive loss rate factors include adjustments for delinquency trends, LTV trends and refreshed FICO score trends.

The Bancorp also considers qualitative factors in determining the ALLL. These 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 Bancorp's primary market areas for lending are the Midwestern and Southeastern regions of the U.S. When evaluating the adequacy of allowances, consideration is given to these regional geographic concentrations and the closely associated effect changing economic conditions have on the Bancorp's customers.

In the current year, the Bancorp has not substantively changed any material aspect to its overall approach to determining its ALLL for any of its portfolio segments. There have been no material

changes in criteria or estimation techniques as compared to prior periods that impacted the determination of the current period ALLL for any of the Bancorp's portfolio segments.

### ***Reserve for Unfunded Commitments***

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the Consolidated Balance Sheets. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience, credit risk grading and historical loss rates based on credit grade migration. This process takes into consideration the same risk elements that are analyzed in the determination of the adequacy of the Bancorp's ALLL, as previously discussed. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the Consolidated Statements of Income.

### ***Loan Sales and Securitizations***

The Bancorp periodically sells loans through either securitizations or individual loan sales in accordance with its investment policies. The sold loans are removed from the balance sheet and a net gain or loss is recognized in the Consolidated Financial Statements at the time of sale. The Bancorp typically isolates the loans through the use of a VIE and thus is required to assess whether the entity holding the sold or securitized loans is a VIE and whether the Bancorp is the primary beneficiary and therefore consolidator of that VIE. If the Bancorp holds the power to direct activities most significant to the economic performance of the VIE and has the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE, then the Bancorp will generally be deemed the primary beneficiary of the VIE. 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. Refer to Note 11 for further information on consolidated and non-consolidated VIEs.

The Bancorp's loan sales and securitizations are generally structured with servicing retained. As a result, servicing rights resulting from residential mortgage loan sales are initially recorded at fair value and subsequently amortized in proportion to and over the period of estimated net servicing revenues and are reported as a component of mortgage banking net revenue in the Consolidated Statements of Income. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and other-than-temporary impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the prepayment speeds of the underlying loans, the weighted-average life and the OAS spread, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speeds. The Bancorp monitors risk and adjusts its valuation allowance as necessary to adequately reserve for impairment in the servicing portfolio. For purposes of measuring impairment, the mortgage servicing rights are stratified into classes based on the financial asset type (fixed-rate vs. adjustable-rate) and interest rates. Fees received for servicing loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in noninterest income in the Consolidated Statements of Income as loan payments are received. Costs of servicing loans are charged to expense as incurred.

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### ***Reserve for 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. The Bancorp establishes a residential mortgage repurchase reserve related to various representations and warranties that reflects management's estimate of losses based on a combination of factors.

The Bancorp's estimation process requires management to make subjective and complex judgments about matters that are inherently uncertain, such as future demand expectations, economic factors and the specific characteristics of the loans subject to repurchase. Such factors incorporate historical investor audit and repurchase demand rates, appeals success rates, historical loss severity and any additional information obtained from the GSEs regarding future mortgage repurchase and file request criteria. At the time of a loan sale, the Bancorp records a representation and warranty reserve at the estimated fair value of the Bancorp's guarantee and continually updates the reserve during the life of the loan as losses in excess of the reserve become probable and reasonably estimable. The provision for the estimated fair value of the representation and warranty guarantee arising from the loan sales is recorded as an adjustment to the gain on sale, which is included in other noninterest income at the time of sale. Updates to the reserve are recorded in other noninterest expense.

### ***Legal Contingencies***

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 and significant judgment may be required in the determination of both the probability of loss and whether the amount of the loss is reasonably estimable. The Bancorp's estimates are subjective and are based on the status of legal and regulatory proceedings, the merit of the Bancorp's defenses and consultation with internal and external legal counsel. 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. This accrual is included in other liabilities in the Consolidated Balance Sheets and is adjusted from time to time as appropriate to reflect changes in circumstances. Legal expenses are recorded in other noninterest expense in the Consolidated Statements of Income.

### ***Bank Premises and Equipment and Other Long-Lived Assets***

Bank premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method based on estimated useful lives of the assets for book purposes, while accelerated depreciation is used for income tax purposes. Amortization of leasehold improvements is computed using the straight-line method over the lives of the related leases or useful lives of the related assets, whichever is shorter. Whenever events or changes in circumstances dictate, the Bancorp tests its long-lived assets for impairment by determining whether the sum of the estimated undiscounted future cash flows attributable to a long-lived asset or asset group is less than the carrying amount of the long-lived asset or asset group through a probability-weighted approach.

In the event the carrying amount of the long-lived asset or asset group is not recoverable, an impairment loss is measured as the amount by which the carrying amount of the long-lived asset or asset group exceeds its fair value. Maintenance, repairs and minor improvements are charged to noninterest expense in the Consolidated Statements of Income as incurred.

### ***Derivative Financial Instruments***

The Bancorp accounts for its derivatives as either assets or liabilities measured at fair value through adjustments to AOCI and/or current earnings, as appropriate. On the date the Bancorp enters into a derivative contract, the Bancorp designates the derivative instrument as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability attributable to the hedged risk are recorded in current period net income. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in AOCI and subsequently reclassified to net income in the same period(s) that the hedged transaction impacts net income. For free-standing derivative instruments, changes in fair values are reported in current period net income.

Prior to entering into a hedge transaction, the Bancorp formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for undertaking the hedge transaction. This process includes linking the derivative instrument designated as a fair value or cash flow hedge to a specific asset or liability on the balance sheet or to specific forecasted transactions and the risk being hedged, along with a formal assessment at both inception of the hedge and on an ongoing basis as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued.

### ***Tax Receivable Agreements***

In conjunction with Vantiv, Inc.'s IPO in 2012, the Bancorp entered into two TRAs with Vantiv, Inc. The TRAs provide for payments by Vantiv, Inc. to the Bancorp of 85% of the cash savings actually realized as a result of the increase in tax basis that results from the historical or future purchase of equity in Vantiv Holding, LLC from the Bancorp or from the exchange of equity units in Vantiv Holding, LLC for cash or Class A Stock, as well as any tax benefits attributable to payments made under the TRA. Any actual increase in tax basis, as well as the amount and timing of any payments made under the TRA depend on a number of uncertain factors, the most significant of which is the realization of the tax benefits by Vantiv, Inc., which depends on the amount and timing of Vantiv, Inc.'s reportable taxable income. The Bancorp accounts for these TRAs as gain contingencies and recognizes income when all uncertainties surrounding the realization of such amounts are resolved.

### ***Income Taxes***

The Bancorp accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for expected future tax consequences. Under the asset and liability method, deferred tax assets and liabilities are determined by applying the federal and state tax rates to the differences between financial statement carrying amounts and the corresponding tax bases of assets and liabilities. Deferred tax assets are also recorded for any tax attributes, such as tax credits and net operating loss carryforwards. The net balances of deferred tax assets and liabilities are reported in other assets and accrued taxes, interest and expenses

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in the Consolidated Balance Sheets. Any effect of a change in federal or state tax rates on deferred tax assets and liabilities is recognized in income tax expense in the period that includes the enactment date. The Bancorp reflects the expected amount of income tax to be paid or refunded during the year as current income tax expense or benefit. Accrued taxes represent the net expected amount due to and/or from taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Consolidated Balance Sheets.

The Bancorp evaluates the realization of deferred tax assets based on all positive and negative evidence available at the balance sheet date. Realization of deferred tax assets is based on the Bancorp's judgment about relevant factors affecting their realization, including the taxable income within any applicable carryback periods, future projected taxable income, the reversal of taxable temporary differences and tax-planning strategies. The Bancorp records a valuation allowance for deferred tax assets where the Bancorp does not believe that it is more-likely-than-not that the deferred tax assets will be realized.

Income tax benefits from uncertain tax positions are recognized in the financial statements only if the Bancorp believes that it is more-likely-than-not that the uncertain tax position will be sustained based solely on the technical merits of the tax position and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If the Bancorp does not believe that it is more-likely-than-not that an uncertain tax position will be sustained, the Bancorp records a liability for the uncertain tax position. If the Bancorp believes that it is more likely than not that an uncertain tax position will be sustained, the Bancorp only records a tax benefit for the portion of the uncertain tax position where the likelihood of realization is greater than 50% upon settlement with the relevant taxing authority that has full knowledge of all relevant information. The Bancorp recognizes interest expense, interest income and penalties related to unrecognized tax benefits within current income tax expense. Refer to Note 20 for further discussion regarding income taxes.

### ***Earnings Per Share***

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Earnings per diluted share is computed by dividing adjusted net income available to common shareholders by the weighted-average number of shares of common stock and common stock equivalents outstanding during the period. Dilutive common stock equivalents represent the assumed conversion of dilutive convertible preferred stock, the exercise of dilutive stock-based awards and warrants and the dilutive effect of the settlement of outstanding forward contracts.

The Bancorp calculates earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share separately for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. For purposes of calculating earnings per share under the two-class method, restricted shares that contain nonforfeitable rights to dividends are considered participating securities until vested. While the dividends declared per share on such restricted shares are the same as dividends declared per common share outstanding, the dividends recognized on such restricted shares may be less because dividends paid on restricted shares that are expected to be forfeited are reclassified to compensation expense during the period when forfeiture is expected.

### ***Goodwill***

Business combinations entered into by the Bancorp typically include the acquisition of goodwill. Goodwill is required to be tested for impairment at the Bancorp's reporting unit level on an annual basis, which for the Bancorp is September 30, and more frequently if events or circumstances indicate that there may be impairment. The Bancorp has determined that its segments qualify as reporting units under U.S. GAAP.

Impairment exists when a reporting unit's carrying amount of goodwill exceeds its implied fair value. In testing goodwill for impairment, U.S. GAAP permits the Bancorp to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In this qualitative assessment, the Bancorp evaluates events and circumstances which may include, but are not limited to, the general economic environment, banking industry and market conditions, the overall financial performance of the Bancorp, the performance of the Bancorp's common stock, the key financial performance metrics of the Bancorp's reporting units and events affecting the reporting units. If, after assessing the totality of events and circumstances, the Bancorp determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test would be unnecessary. However, if the Bancorp concludes otherwise or elects to bypass the qualitative assessment, it would then be required to perform the first step (Step 1) of the goodwill impairment test, and continue to the second step (Step 2), if necessary. Step 1 of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, Step 2 of the goodwill impairment test is performed to measure the amount of impairment loss, if any.

The fair value of a reporting unit is the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. As none of the Bancorp's reporting units are publicly traded, individual reporting unit fair value determinations cannot be directly correlated to the Bancorp's stock price. To determine the fair value of a reporting unit, the Bancorp employs an income-based approach, utilizing the reporting unit's forecasted cash flows (including a terminal value approach to estimate cash flows beyond the final year of the forecast) and the reporting unit's estimated cost of equity as the discount rate. Additionally, the Bancorp determines its market capitalization based on the average of the closing price of the Bancorp's stock during the month including the measurement date, incorporating an additional control premium, and compares this market-based fair value measurement to the aggregate fair value of the Bancorp's reporting units in order to corroborate the results of the income approach.

When required to perform Step 2, the Bancorp compares the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss equal to that excess amount is recognized. A recognized impairment loss cannot exceed the carrying amount of that goodwill and cannot be reversed in future periods even if the fair value of the reporting unit subsequently recovers.

During Step 2, the Bancorp determines the implied fair value of goodwill for a reporting unit by assigning the fair value of the reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. This assignment process is only performed for purposes of testing goodwill for

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

impairment. The Bancorp does not adjust the carrying values of recognized assets or liabilities (other than goodwill, if appropriate), nor does it recognize previously unrecognized intangible assets in the Consolidated Financial Statements as a result of this assignment process. Refer to Note 9 for further information regarding the Bancorp's goodwill.

### ***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. Valuation techniques the Bancorp uses to measure fair value include the market approach, income approach and cost approach. The market approach uses prices or relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach involves discounting future amounts to a single present amount and is based on current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of the asset.

U.S. GAAP 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. The three levels within the fair value hierarchy are described as follows:

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bancorp has the ability to access at the measurement date.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* – Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Bancorp's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Bancorp's own financial data such as internally developed pricing models and DCF methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The Bancorp's fair value measurements involve various valuation techniques and models, which involve inputs that are observable, when available. Valuation techniques and parameters used for measuring assets and liabilities are reviewed and validated by the Bancorp on a quarterly basis. Additionally, the Bancorp monitors the fair values of significant assets and liabilities using a variety of methods including the evaluation of pricing runs and exception reports based on certain analytical criteria, comparison to previous trades and overall review and assessments for reasonableness. The Bancorp may, as a practical expedient, measure

the fair value of certain investments on the basis of the net asset value per share of the investment, or its equivalent. Any investments which are valued using this practical expedient are not classified in the fair value hierarchy. Refer to Note 27 for further information on fair value measurements.

### ***Stock-Based Compensation***

The Bancorp recognizes compensation expense for the grant-date fair value of stock-based awards that are expected to vest over the requisite service period. All awards, both those with cliff vesting and graded vesting, are expensed on a straight-line basis. Awards to employees that meet eligible retirement status are expensed immediately. As compensation expense is recognized, a deferred tax asset is recorded that represents an estimate of the future tax deduction from exercise or release of restrictions. At the time awards are exercised, cancelled, expire or restrictions are released, the Bancorp recognizes an adjustment to income tax expense for the difference between the previously estimated tax deduction and the actual tax deduction realized. For further information on the Bancorp's stock-based compensation plans, refer to Note 24.

### ***Pension Plans***

The Bancorp uses an expected long-term rate of return applied to the fair market value of assets as of the beginning of the year and the expected cash flow during the year for calculating the expected investment return on all pension plan assets. Amortization of the net gain or loss resulting from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value) is included as a component of net periodic benefit cost. If, as of the beginning of the year, that net gain or loss exceeds 10% of the greater of the projected benefit obligation and the market-related value of plan assets, the amortization is that excess divided by the average remaining service period of participating employees expected to receive benefits under the plan. The Bancorp uses a third-party actuary to compute the remaining service period of participating employees. This period reflects expected turnover, pre-retirement mortality and other applicable employee demographics.

### ***Other***

Securities and other property held by Fifth Third Wealth and Asset Management, a division of the Bancorp's banking subsidiary, in a fiduciary or agency capacity are not included in the Consolidated Balance Sheets because such items are not assets of the subsidiaries. Wealth and asset management revenue in the Consolidated Statements of Income is recognized on the accrual basis. Wealth and asset management service revenues are recognized monthly based on a fee charged per transaction processed and/or a fee charged on the market value of average account balances associated with individual contracts.

The Bancorp recognizes revenue from its card and processing services on an accrual basis as such services are performed, recording revenues net of certain costs (primarily interchange fees charged by credit card associations) not controlled by the Bancorp.

The Bancorp purchases life insurance policies on the lives of certain directors, officers and employees and is the owner and beneficiary of the policies. The Bancorp invests in these policies, known as BOLI, to provide an efficient form of funding for long-term retirement and other employee benefits costs. The Bancorp records these BOLI policies within other assets in the Consolidated Balance Sheets at each policy's respective cash surrender value, with changes recorded in other noninterest income in the Consolidated Statements of Income.

Other intangible assets consist of core deposit intangibles, customer lists, non-compete agreements and cardholder

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relationships. Other intangible assets are amortized on either a straight-line or an accelerated basis over their estimated useful lives. The Bancorp reviews other intangible assets for impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable.

Securities sold under repurchase agreements are accounted for as secured borrowings and included in other short-term borrowings in the Consolidated Balance Sheets at the amounts at which the securities were sold plus accrued interest.

Acquisitions of treasury stock are carried at cost. Reissuance of shares in treasury for acquisitions, exercises of stock-based awards or other corporate purposes is recorded based on the specific identification method.

Advertising costs are generally expensed as incurred.

### ACCOUNTING AND REPORTING DEVELOPMENTS

#### *Standards Adopted in 2016*

The Bancorp adopted the following new accounting standards effective January 1, 2016:

*ASU 2014-12 – Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*

In June 2014, the FASB issued ASU 2014-12 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. The Bancorp adopted the amended guidance prospectively and the adoption did not have a material impact on the Consolidated Financial Statements.

*ASU 2014-13 – Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*

In August 2014, the FASB issued ASU 2014-13 which 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 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 Consolidated Statements of Income. The Bancorp adopted the amended guidance retrospectively and the adoption did not have a material impact on the Consolidated Financial Statements.

*ASU 2014-16 – Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*

In November 2014, the FASB issued ASU 2014-16 which 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 Bancorp adopted the amended guidance on a modified retrospective basis and the adoption did not have a material impact on the Consolidated Financial Statements.

*ASU 2015-01 – Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*

In January 2015, the FASB issued ASU 2015-01 which 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 Bancorp adopted the amended guidance prospectively and the adoption did not have a material impact on the Consolidated Financial Statements.

*ASU 2015-02 – Consolidation (Topic 810): Amendments to the Consolidation Analysis*

In February 2015, the FASB issued ASU 2015-02 which 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

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of the Investment Company Act of 1940 for registered money market funds. The Bancorp adopted the amended guidance on a modified retrospective basis and the adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2015-03 – Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*

In April 2015, the FASB issued ASU 2015-03 which 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. The recognition and measurement guidance for debt issuance costs are not affected by the amended guidance. Subsequent to issuance of ASU 2015-03, the FASB also issued ASU 2015-15 to incorporate comments from the SEC that its staff would not object to an entity deferring and presenting debt issuance costs for line-of-credit arrangements as an asset and subsequently amortizing these 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 Bancorp adopted the amended guidance in ASU 2015-03 and ASU 2015-15 retrospectively. Upon adoption, the Bancorp reclassified approximately \$34 million of debt issuance costs from other assets to a direct deduction from long-term debt in the Consolidated Balance Sheets.

### *ASU 2015-04 – Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets*

In April 2015, the FASB issued ASU 2015-04 which simplifies 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 Bancorp adopted the amended guidance prospectively on January 1, 2016 and the adoption did not have an impact on the Consolidated Financial Statements as the Bancorp’s fiscal year-end coincides with a month-end.

### *ASU 2015-05 – Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*

In April 2015, the FASB issued ASU 2015-05 which 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 Bancorp adopted the amended guidance prospectively to all arrangements entered into or materially modified after the effective date. The adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2015-07 – Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*

In May 2015, the FASB issued ASU 2015-07 which removes 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 Bancorp adopted the amended guidance retrospectively and the adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2015-16 – Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*

In September 2015, the FASB issued ASU 2015-16 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 Bancorp adopted the amended guidance prospectively and the adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2016-09 – Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

In March 2016, the FASB issued ASU 2016-09 to simplify 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 Consolidated Income Statements; 2) requires excess tax benefits to be included as operating activities on the 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.

As permitted, the Bancorp elected to early adopt the amended guidance during the fourth quarter of 2016 with an effective date of January 1, 2016. The changes to the recognition of excess tax benefits were applied prospectively beginning January 1, 2016, resulting in a reclassification from capital surplus to income tax expense for the excess tax benefits originally recorded to capital surplus during 2016. This reclassification did not materially impact the Consolidated Financial Statements for the year ended December 31, 2016 but the reclassification did affect previously reported results for interim periods. Net tax deficiencies of \$1 million, \$5 million and \$0 were reclassified from capital surplus to applicable income tax expense during the three months ended March 31, 2016, June 30, 2016 and September 30, 2016, respectively, related to the adoption. The Bancorp adopted the amendments to presentation requirements for the Consolidated Statements of Cash Flows on a prospective basis and the impact of adopting these amendments was

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not material. The Bancorp elected to continue estimating awards expected to be forfeited, and therefore this amended guidance did not have an impact on the Consolidated Financial Statements. The amended guidance also contained other provisions which either did not apply to the Bancorp or did not have a material impact on the Consolidated Financial Statements upon adoption.

### ***Standards Issued but Not Yet Adopted***

The following accounting standards were issued but not yet adopted by the Bancorp as of December 31, 2016:

#### *ASU 2014-09 – Revenue from Contracts with Customers (Topic 606)*

In May 2014, the FASB issued ASU 2014-09 which 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. Subsequent to the issuance of ASU 2014-09, the FASB has issued additional guidance to clarify certain implementation issues, including ASUs 2016-08 (Principal versus Agent Considerations), 2016-10 (Identifying Performance Obligations and Licensing), 2016-12 (Narrow-Scope Improvements and Practical Expedients), and 2016-20 (Technical Corrections and Improvements) in March, April, May and December 2016, respectively. These amendments do not change the core principles in ASU 2014-09 and the effective date and transition requirements are consistent with those in the original ASU. The Bancorp plans to adopt the amended guidance on its required effective date of January 1, 2018, using a modified retrospective approach, with the cumulative effect of initially applying the amendments recognized at the date of initial application. Because the amended guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP, the Bancorp's preliminary analysis suggests that the adoption of this amended guidance is not expected to have a material impact on its Consolidated Financial Statements, although the Bancorp will also be subject to expanded disclosure requirements upon adoption and the Bancorp's revenue recognition processes for wealth and asset management revenue, corporate banking revenue, and card and processing revenue may be affected. However, there are certain areas of the amended guidance, such as credit card interchange fees and related rewards programs, which are subject to interpretation and for which the Bancorp has not made final conclusions regarding the applicability and the related impact, if any. Accordingly, the results of the Bancorp's materiality analysis, as well as its selected adoption method, may change as these conclusions are reached.

#### *ASU 2016-01 – Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

In January 2016, the FASB issued ASU 2016-01 which revises 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 Bancorp plans to adopt the amended guidance on its required effective date of January 1, 2018. Upon adoption, the Bancorp will be required to make a cumulative-effect adjustment to the 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. 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 Consolidated Financial Statements.

#### *ASU 2016-02 – Leases (Topic 842)*

In February 2016, the FASB issued ASU 2016-02 which 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 the Bancorp on January 1, 2019, 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 developing an inventory of all leases and accumulating the lease data necessary to apply the amended guidance. The Bancorp is continuing to evaluate the impact of the amended guidance on its Consolidated Financial Statements, but the effects of recognizing most operating leases on the Consolidated Balance Sheets are expected to be material. The Bancorp expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments disclosed in Note 7 based on the present value of unpaid lease payments as of the date of adoption.

#### *ASU 2016-04 – Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*

In March 2016, the FASB issued ASU 2016-04 which permits 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

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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 may be applied retrospectively to all comparable periods presented in the year of adoption or applied on a modified retrospective basis by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Bancorp plans to adopt the amended guidance on its required effective date of January 1, 2018 and is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements. However, the Bancorp's preliminary analysis suggests that most of its prepaid stored-value products will not be affected by the amended guidance.

### *ASU 2016-05 – Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*

In March 2016, the FASB issued ASU 2016-05 which clarifies 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 Bancorp adopted the amended guidance prospectively on January 1, 2017. The adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2016-06 – Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*

In March 2016, the FASB issued ASU 2016-06 which clarifies 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 Bancorp adopted the amended guidance on January 1, 2017 on a modified retrospective basis. The adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2016-07 – Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*

In March 2016, the FASB issued ASU 2016-07 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 Bancorp adopted the amended guidance prospectively on January 1, 2017. The adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued ASU 2016-13 which 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 interest income over time. There are also additional disclosure requirements included in this guidance. The amended guidance is effective for the Bancorp on January 1, 2020, with early adoption permitted as early as January 1, 2019. The amended guidance 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. While the Bancorp is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of the Bancorp's loan and lease portfolio at the time of adoption.

### *ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*

In August 2016, the FASB issued ASU 2016-15 to clarify the guidance for classification of certain cash receipts and payments within 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 the Bancorp on January 1, 2018, 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 Consolidated Financial Statements.

### *ASU 2016-16 – Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*

In October 2016, the FASB issued ASU 2016-16 which requires an entity to recognize the income tax consequences of an intra-entity



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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 the Bancorp on January 1, 2018, 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 Consolidated Financial Statements.

### *ASU 2016-17 – Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control*

In October 2016, the FASB issued ASU 2016-17 which changes the accounting for the consolidation of VIEs 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 VIE. 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 VIE 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 Bancorp adopted the amended guidance retrospectively on January 1, 2017. The adoption did not have a material impact on the Consolidated Financial Statements.

### *ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash*

In November 2016, the FASB issued ASU 2016-18 to provide clarifying guidance on the classification and presentation of changes in restricted cash on an entity's statements of cash flows. The guidance requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amended guidance is effective for the Bancorp on January 1, 2018,

with early adoption permitted, and is to be applied retrospectively to all periods presented. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements.

### *ASU 2017-01 – Business Combinations (Topic 805): Clarifying the Definition of a Business*

In January 2017, the FASB issued ASU 2017-01 which clarifies the definition of a business in order to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amended guidance provides a screen which states that when substantially all of the fair value of assets acquired (or disposed) is concentrated in a single asset or group of similar assets, then the set of assets and activities would not be considered a business. The amended guidance is effective for the Bancorp on January 1, 2018, and is to be applied prospectively. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements.

### *ASU 2017-04 – Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

In January 2017, the FASB issued ASU 2017-04 which simplifies the test for goodwill impairment by removing the second step, which measures the amount of impairment loss, if any. Instead, the amended guidance states that an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, except that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This would apply to all reporting units, including those with zero or negative carrying amounts of net assets. The amended guidance is effective for the Bancorp on January 1, 2020, and is to be applied prospectively. Early adoption is permitted. The Bancorp is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements.

## 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 years ended December 31:

(\$ in millions)	2016	2015	2014
<b>Cash Payments:</b>			
Interest	\$ 578	475	429
Income taxes	800	400	550
<b>Non-cash Investing and Financing Activities:</b>			
Portfolio loans to loans held for sale	238	487	855
Loans held for sale to portfolio loans	28	288	31
Portfolio loans to OREO	49	105	145
Loans held for sale to OREO	-	-	2
Capital lease	-	4	15

## 3. RESTRICTIONS ON CASH, DIVIDENDS AND OTHER CAPITAL ACTIONS

### *Reserve Requirement*

The FRB, under Regulation D, requires that banks hold cash in reserve against deposit liabilities when total reservable deposit liabilities are greater than the regulatory exemption, known as the reserve requirement. The reserve requirement is calculated based on a two-week average of daily net transaction account deposits as defined by the FRB and may be satisfied with average vault cash during the following two-week maintenance period. When vault cash is not sufficient to meet the reserve requirement, the remaining amount must be satisfied with average funds held at the FRB. The

noninterest-bearing portion of the Bancorp's deposit at the FRB is held in cash and due from banks in the Consolidated Balance Sheets while the interest-bearing portion is held in other short-term investments in the Consolidated Balance Sheets. At December 31, 2016 and 2015, the Bancorp's banking subsidiary reserve requirement was \$1.6 billion and \$1.9 billion, respectively. Additionally, the Bancorp's banking subsidiary average reserve requirement was \$1.6 billion and \$1.8 billion in 2016 and 2015, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Restrictions on Cash Dividends**

The principal source of income and funds for the Bancorp (parent company) are dividends from its subsidiaries. The dividends paid by the Bancorp's banking subsidiary are subject to regulations and limitations prescribed by state and federal supervisory agencies. The Bancorp's banking subsidiary paid the Bancorp's nonbank subsidiary holding company, which in turn paid the Bancorp \$1.9 billion and \$1.0 billion in dividends during the years ended December 31, 2016 and 2015, respectively. The Bancorp's nonbank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year.

### **Capital Actions**

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 firm submissions of stress test results and capital plans due to the FRB 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.

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, the Bancorp entered into \$240 million and \$155 million accelerated share repurchase transactions during the third and fourth quarters of 2016, respectively. For further information, refer to Note 23. In the fourth quarter of 2016, the Bancorp increased the quarterly common stock dividend to \$0.14.

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 in a press release.

The BHCs that participated in the 2016 CCAR, including the Bancorp, were 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENT SECURITIES

The following table provides 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 December 31:

(\$ in millions)	2016				2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale and other securities:								
U.S. Treasury and federal agencies securities	\$ 547	2	-	549	1,155	32	-	1,187
Obligations of states and political subdivisions securities	44	1	-	45	50	2	-	52
Mortgage-backed securities:								
Agency residential mortgage-backed securities <sup>(a)</sup>	15,525	178	(95)	15,608	14,811	283	(13)	15,081
Agency commercial mortgage-backed securities	9,029	87	(61)	9,055	7,795	100	(33)	7,862
Non-agency commercial mortgage-backed securities	3,076	51	(15)	3,112	2,801	35	(32)	2,804
Asset-backed securities and other debt securities	2,106	28	(18)	2,116	1,363	13	(21)	1,355
Equity securities <sup>(b)</sup>	697	3	(2)	698	703	2	(2)	703
Total available-for-sale and other securities	\$ 31,024	350	(191)	31,183	28,678	467	(101)	29,044
Held-to-maturity securities:								
Obligations of states and political subdivisions securities	\$ 24	-	-	24	68	-	-	68
Asset-backed securities and other debt securities	2	-	-	2	2	-	-	2
Total held-to-maturity securities	\$ 26	-	-	26	70	-	-	70

(a) Includes interest-only mortgage-backed securities of \$60 and \$50 as of December 31, 2016 and 2015, respectively, recorded at fair value with fair value changes recorded in securities gains, net, in the Consolidated Statements of Income.

(b) Equity securities consist of FHLB, FRB and DTCC restricted stock holdings of \$248, \$358, and \$1, respectively, at December 31, 2016 and \$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 years ended December 31:

(\$ in millions)	2016	2015	2014
Realized gains	\$ 72	97	70
Realized losses	(45)	(76)	(9)
OTTI	(16)	(5)	(24)
Net realized gains <sup>(a)</sup>	\$ 11	16	37

(a) Excludes net losses on interest-only mortgage-backed securities of \$4, \$4 and \$17 for the years ended December 31, 2016, 2015 and 2014, respectively.

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

(\$ in millions)	2016	2015	2014
Available-for-sale and other debt securities	\$ (15)	(5)	(24)
Available-for-sale equity securities	(1)	-	-
Total OTTI <sup>(a)</sup>	\$ (16)	(5)	(24)

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

Trading securities were \$410 million as of December 31, 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 years ended December 31:

(\$ in millions)	2016	2015	2014
Realized gains <sup>(a)</sup>	\$ 9	6	8
Realized losses <sup>(b)</sup>	(13)	(10)	(7)
Net unrealized gains (losses) <sup>(c)</sup>	4	(3)	(3)
Total trading securities losses	\$ -	(7)	(2)

(a) Includes realized gains of \$7, \$6 and \$4 for the years ended December 31, 2016, 2015 and 2014, respectively, recorded in corporate banking revenue and wealth and asset management revenue in the Consolidated Statements of Income.

(b) Includes realized losses of \$10, \$10 and \$7 for the years ended December 31, 2016, 2015 and 2014, respectively, recorded in corporate banking revenue and wealth and asset management revenue in the Consolidated Statements of Income.

(c) Includes an immaterial amount of net unrealized gains for the years ended December 31, 2016 and 2015, respectively, and an immaterial amount of net unrealized losses for the year ended 2014 recorded in corporate banking revenue and wealth and asset management revenue in the Consolidated Statements of Income.

At December 31, 2016 and 2015, securities with a fair value of \$10.1 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 December 31, 2016 are shown in the following table:

(\$ in millions)	Available-for-Sale and Other		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities: <sup>(a)</sup>				
Less than 1 year	\$ 328	332	2	2
1-5 years	7,290	7,347	11	11
5-10 years	20,043	20,146	12	12
Over 10 years	2,666	2,660	1	1
Equity securities	697	698	-	-
<b>Total</b>	<b>\$ 31,024</b>	<b>31,183</b>	<b>26</b>	<b>26</b>

(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 December 31:

(\$ in millions)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>2016</b>						
U.S. Treasury and federal agencies securities	\$ 199	-	-	-	199	-
Agency residential mortgage-backed securities	6,223	(88)	172	(7)	6,395	(95)
Agency commercial mortgage-backed securities	3,183	(61)	-	-	3,183	(61)
Non-agency commercial mortgage-backed securities	1,052	(15)	-	-	1,052	(15)
Asset-backed securities and other debt securities	422	(8)	336	(10)	758	(18)
Equity securities	-	-	37	(2)	37	(2)
<b>Total</b>	<b>\$ 11,079</b>	<b>(172)</b>	<b>545</b>	<b>(19)</b>	<b>11,624</b>	<b>(191)</b>
<b>2015</b>						
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)
<b>Total</b>	<b>\$ 8,248</b>	<b>(90)</b>	<b>263</b>	<b>(11)</b>	<b>8,511</b>	<b>(101)</b>

At December 31, 2016 and 2015, an immaterial amount and 1%, respectively, of unrealized losses in the available-for-sale and other securities portfolio were represented by non-rated securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 31:

(\$ in millions)	2016	2015
Loans held for sale:		
Commercial and industrial loans	\$ 60	20
Commercial mortgage loans	5	34
Residential mortgage loans	686	708
Home equity	-	35
Automobile loans	-	4
Credit card	-	101
Other consumer loans	-	1
Total loans held for sale	\$ 751	903
Portfolio loans and leases:		
Commercial and industrial loans	\$ 41,676	42,131
Commercial mortgage loans	6,899	6,957
Commercial construction loans	3,903	3,214
Commercial leases	3,974	3,854
Total commercial loans and leases	56,452	56,156
Residential mortgage loans	15,051	13,716
Home equity	7,695	8,301
Automobile loans	9,983	11,493
Credit card	2,237	2,259
Other consumer loans and leases	680	657
Total consumer loans and leases	35,646	36,426
Total portfolio loans and leases	\$ 92,098	92,582

Total portfolio loans and leases are recorded net of unearned income, which totaled \$503 million as of December 31, 2016 and \$624 million as of December 31, 2015. Additionally, portfolio loans and leases are recorded net of unamortized premiums and discounts, deferred direct loan origination fees and costs and fair value adjustments (associated with acquired loans or loans designated as fair value upon origination) which totaled a net

premium of \$240 million and \$220 million as of December 31, 2016 and 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 December 31, 2016 and 2015, respectively, pledged at the FHLB, and loans of \$40.0 billion and \$33.7 billion at December 31, 2016 and 2015, respectively, pledged at the FRB.

The following table presents a summary of the total loans and leases owned by the Bancorp and net charge-offs (recoveries) as of and for the years ended December 31:

(\$ in millions)	Carrying Value		90 Days Past Due and Still Accruing		Net Charge-Offs (Recoveries)	
	2016	2015	2016	2015	2016	2015
Commercial and industrial loans	\$ 41,736	42,151	4	7	172	229
Commercial mortgage loans	6,904	6,991	-	-	15	27
Commercial construction loans	3,903	3,214	-	-	(1)	3
Commercial leases	3,974	3,854	-	-	4	2
Residential mortgage loans	15,737	14,424	49	40	10	17
Home equity	7,695	8,336	-	-	27	39
Automobile loans	9,983	11,497	9	10	35	28
Credit card	2,237	2,360	22	18	80	82
Other consumer loans and leases	680	658	-	-	20	19
Total loans and leases	\$ 92,849	93,485	84	75	362	446
Less: Loans held for sale	\$ 751	903				
Total portfolio loans and leases	\$ 92,098	92,582				

The Bancorp engages in commercial lease products primarily related to the financing of commercial equipment. The Bancorp had \$3.3

billion and \$3.1 billion of direct financing leases, net of unearned income, at December 31, 2016 and 2015, respectively, and \$701

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

million and \$801 million of leveraged leases, net of unearned income, at December 31, 2016 and 2015, respectively.

Pre-tax income from leveraged leases was \$38 million and included \$16 million of gains on early terminations during the year ended December 31, 2016. Pre-tax income from leveraged leases

was \$27 million and included \$7 million of gains on early terminations during the year ended December 31, 2015. The tax effect of this income was a benefit of \$10 million and an expense \$1 million during the years ended December 31, 2016 and 2015, respectively.

The following table provides the components of the commercial lease financing portfolio as of December 31:

(\$ in millions)	2016	2015
Rentals receivable, net of principal and interest on nonrecourse debt	\$ 3,551	3,550
Estimated residual value of leased assets	903	906
Initial direct cost, net of amortization	23	22
Gross investment in lease financing	4,477	4,478
Unearned income	(503)	(624)
Net investment in commercial lease financing <sup>(a)</sup>	\$ 3,974	3,854

*(a) The accumulated allowance for uncollectible minimum lease payments was \$15 and \$47 at December 31, 2016 and 2015, respectively.*

The Bancorp periodically reviews residual values associated with its leasing portfolio. Declines in residual values that are deemed to be other-than-temporary are recognized as a loss. The Bancorp recognized \$1 million and \$8 million of residual value write-downs related to commercial leases for the years ended December 31, 2016 and 2015, respectively. The residual value write-downs related to

commercial leases are recorded in corporate banking revenue in the Consolidated Statements of Income. At December 31, 2016, the minimum future lease payments receivable for each of the years 2017 through 2021 was \$813 million, \$716 million, \$611 million, \$482 million and \$361 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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 years ended December 31:

2016 (\$ in millions)	Residential				Total
	Commercial	Mortgage	Consumer	Unallocated	
Balance, beginning of period	\$ 840	100	217	115	1,272
Charge-offs	(232)	(19)	(205)	-	(456)
Recoveries of losses previously charged-off	42	9	43	-	94
Provision for loan and lease losses	181	6	159	(3)	343
Balance, end of period	\$ 831	96	214	112	1,253

2015 (\$ in millions)	Residential				Total
	Commercial	Mortgage	Consumer	Unallocated	
Balance, beginning of period	\$ 875	104	237	106	1,322
Charge-offs	(298)	(28)	(216)	-	(542)
Recoveries of losses previously charged-off	37	11	48	-	96
Provision for loan and lease losses	226	13	148	9	396
Balance, end of period	\$ 840	100	217	115	1,272

2014 (\$ in millions)	Residential				Total
	Commercial	Mortgage	Consumer	Unallocated	
Balance, beginning of period	\$ 1,058	189	225	110	1,582
Charge-offs	(299)	(139)	(241)	-	(679)
Recoveries of losses previously charged-off	38	13	53	-	104
Provision for loan and lease losses	78	41	200	(4)	315
Balance, end of period	\$ 875	104	237	106	1,322

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

As of December 31, 2016 (\$ in millions)	Residential				Total
	Commercial	Mortgage	Consumer	Unallocated	
ALLL: <sup>(a)</sup>					
Individually evaluated for impairment	\$ 118 <sup>(c)</sup>	68	44	-	230
Collectively evaluated for impairment	713	28	170	-	911
Unallocated	-	-	-	112	112
Total ALLL	\$ 831	96	214	112	1,253
Portfolio loans and leases: <sup>(b)</sup>					
Individually evaluated for impairment	\$ 904 <sup>(c)</sup>	652	371	-	1,927
Collectively evaluated for impairment	55,548	14,253	20,224	-	90,025
Loans acquired with deteriorated credit quality	-	3	-	-	3
Total portfolio loans and leases	\$ 56,452	14,908	20,595	-	91,955

(a) Includes \$2 related to leveraged leases at December 31, 2016.

(b) Excludes \$143 of residential mortgage loans measured at fair value, and includes \$701 of leveraged leases, net of unearned income, at December 31, 2016.

(c) Includes five restructured loans at December 31, 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 \$26 and an ALLL of \$18.

As of December 31, 2015 (\$ in millions)	Residential				Total
	Commercial	Mortgage	Consumer	Unallocated	
ALLL: <sup>(a)</sup>					
Individually evaluated for impairment	\$ 119 <sup>(b)</sup>	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: <sup>(b)</sup>					
Individually evaluated for impairment	\$ 815 <sup>(b)</sup>	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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### CREDIT RISK PROFILE

#### *Commercial Portfolio Segment*

For purposes of analyzing historic 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 December 31, 2016 (\$ in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial loans	\$ 38,844	1,204	1,604	24	41,676
Commercial mortgage owner-occupied loans	3,168	72	117	3	3,360
Commercial mortgage nonowner-occupied loans	3,466	4	69	-	3,539
Commercial construction loans	3,902	1	-	-	3,903
Commercial leases	3,894	54	26	-	3,974
<b>Total commercial loans and leases</b>	<b>\$ 53,274</b>	<b>1,335</b>	<b>1,816</b>	<b>27</b>	<b>56,452</b>

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
<b>Total commercial loans and leases</b>	<b>\$ 52,130</b>	<b>1,917</b>	<b>2,109</b>	<b>-</b>	<b>56,156</b>

#### *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 for additional information on delinquency and nonperforming loan accounting and reporting policies.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 December 31:

(\$ in millions)	2016		2015	
	Performing	Nonperforming	Performing	Nonperforming
Residential mortgage loans <sup>(a)</sup>	\$ 14,874	34	13,498	51
Home equity	7,622	73	8,222	79
Automobile loans	9,981	2	11,491	2
Credit card	2,209	28	2,226	33
Other consumer loans and leases	680	-	657	-
<b>Total residential mortgage and consumer loans and leases<sup>(a)</sup></b>	<b>\$ 35,366</b>	<b>137</b>	<b>36,094</b>	<b>165</b>

(a) Excludes \$143 and \$167 of loans measured at fair value at December 31, 2016 and 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 December 31, 2016 (\$ in millions)	Current Loans and Leases <sup>(c)</sup>	Past Due			Total Loans and Leases	90 Days Past Due and Still Accruing
		30-89 Days <sup>(c)</sup>	90 Days or More <sup>(c)</sup>	Total Past Due		
Commercial loans and leases:						
Commercial and industrial loans	\$ 41,495	87	94	181	41,676	4
Commercial mortgage owner-occupied loans	3,332	6	22	28	3,360	-
Commercial mortgage nonowner-occupied loans	3,530	2	7	9	3,539	-
Commercial construction loans	3,902	1	-	1	3,903	-
Commercial leases	3,972	-	2	2	3,974	-
Residential mortgage loans <sup>(a)(b)</sup>	14,790	37	81	118	14,908	49
Consumer loans and leases:						
Home equity	7,570	68	57	125	7,695	-
Automobile loans	9,886	85	12	97	9,983	9
Credit card	2,183	28	26	54	2,237	22
Other consumer loans and leases	679	1	-	1	680	-
<b>Total portfolio loans and leases<sup>(a)</sup></b>	<b>\$ 91,339</b>	<b>315</b>	<b>301</b>	<b>616</b>	<b>91,955</b>	<b>84</b>

(a) Excludes \$143 of residential mortgage loans measured at fair value at December 31, 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 V.A. As of December 31, 2016, \$110 of these loans were 30-89 days past due and \$312 were 90 days or more past due. The Bancorp recognized \$6 of losses during the year ended December 31, 2016 due to claim denials and curtailments associated with these insured or guaranteed loans.

(c) Includes accrual and nonaccrual loans and leases.

As of December 31, 2015 (\$ in millions)	Current Loans and Leases <sup>(c)</sup>	Past Due			Total Loans and Leases	90 Days Past Due and Still Accruing
		30-89 Days <sup>(c)</sup>	90 Days or More <sup>(c)</sup>	Total Past Due		
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 <sup>(a)(b)</sup>	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	-
<b>Total portfolio loans and leases<sup>(a)</sup></b>	<b>\$ 91,780</b>	<b>306</b>	<b>329</b>	<b>635</b>	<b>92,415</b>	<b>75</b>

(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 V.A. 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 \$8 of losses during the year ended December 31, 2015 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 31:

2016 (\$ in millions)	Unpaid Principal Balance	Recorded Investment	ALLL
With a related ALLL:			
Commercial loans and leases:			
Commercial and industrial loans	\$ 440	414	94
Commercial mortgage owner-occupied loans <sup>(b)</sup>	24	16	5
Commercial mortgage nonowner-occupied loans	7	6	1
Commercial leases	2	2	-
Restructured residential mortgage loans	471	465	68
Restructured consumer loans and leases:			
Home equity	202	201	30
Automobile loans	12	12	2
Credit card	52	52	12
<b>Total impaired portfolio loans and leases with a related ALLL</b>	<b>\$ 1,210</b>	<b>1,168</b>	<b>212</b>
With no related ALLL:			
Commercial loans and leases:			
Commercial and industrial loans	\$ 394	320	-
Commercial mortgage owner-occupied loans	36	35	-
Commercial mortgage nonowner-occupied loans	93	83	-
Commercial leases	2	2	-
Restructured residential mortgage loans	207	187	-
Restructured consumer loans and leases:			
Home equity	107	104	-
Automobile loans	3	2	-
<b>Total impaired portfolio loans and leases with no related ALLL</b>	<b>\$ 842</b>	<b>733</b>	<b>-</b>
<b>Total impaired portfolio loans and leases</b>	<b>\$ 2,052</b>	<b>1,901<sup>(a)</sup></b>	<b>212</b>

(a) Includes \$322, \$635 and \$323, respectively, of commercial, residential mortgage and consumer portfolio TDRs on accrual status and \$192, \$17 and \$48, respectively, of commercial, residential mortgage and consumer portfolio TDRs on nonaccrual status at December 31, 2016.

(b) Excludes five restructured loans at December 31, 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 \$26, a recorded investment of \$26 and an ALLL of \$18.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 <sup>(b)</sup>	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 <sup>(a)</sup>	220

(a) Includes \$491, \$607 and \$372, 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 table summarizes the Bancorp's average impaired portfolio loans and leases, by class, and interest income, by class, for the years ended December 31:

(\$ in millions)	2016		2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial loans and leases:						
Commercial and industrial loans	\$ 691	10	663	21	786	25
Commercial mortgage owner-occupied loans <sup>(a)</sup>	63	1	92	2	149	4
Commercial mortgage nonowner-occupied loans	139	5	224	7	268	8
Commercial construction loans	3	-	41	1	92	2
Commercial leases	5	-	5	-	13	-
Restructured residential mortgage loans	647	25	586	23	1,273	54
Restructured consumer loans and leases:						
Home equity	325	12	361	13	394	20
Automobile loans	17	-	22	1	24	1
Credit card	56	5	68	6	62	5
Total average impaired portfolio loans and leases	\$ 1,946	58	2,062	74	3,061	119

(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 \$26, \$27 and \$28 for the years ended December 31, 2016, 2015 and 2014, respectively. An immaterial amount of interest income was recognized during the years ended December 31, 2016, 2015 and 2014.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### ***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 December 31:

(\$ in millions)	2016	2015
Commercial loans and leases:		
Commercial and industrial loans	\$ 478	259
Commercial mortgage owner-occupied loans <sup>(a)</sup>	32	46
Commercial mortgage nonowner-occupied loans	9	35
Commercial leases	4	1
<b>Total nonaccrual portfolio commercial loans and leases</b>	<b>523</b>	<b>341</b>
Residential mortgage loans	34	51
Consumer loans and leases:		
Home equity	73	79
Automobile loans	2	2
Credit card	28	33
<b>Total nonaccrual portfolio consumer loans and leases</b>	<b>103</b>	<b>114</b>
<b>Total nonaccrual portfolio loans and leases<sup>(b)(c)</sup></b>	<b>\$ 660</b>	<b>506</b>
OREO and other repossessed property	78	141
<b>Total nonperforming portfolio assets<sup>(b)(c)</sup></b>	<b>\$ 738</b>	<b>647</b>

(a) Excludes \$19 and \$20 of restructured nonaccrual loans at **December 31, 2016** and 2015, respectively, associated with a consolidated VIE in which the Bancorp has no continuing credit risk due the risk being assumed by a third party.

(b) Excludes \$13 and \$12 of nonaccrual loans held for sale at **December 31, 2016** and 2015, respectively.

(c) Includes \$4 and \$6 of nonaccrual government insured commercial loans whose repayments are insured by the SBA at **December 31, 2016** and 2015, respectively, and \$1 and \$2 of restructured nonaccrual government insured commercial loans at **December 31, 2016** and 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 \$260 million and \$303 million as of December 31, 2016 and 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 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. The resulting measurement may result in the need for minimal or no valuation 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 December 31, 2016, the Bancorp had \$82 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables provide a summary of loans, by class, modified in a TDR by the Bancorp during the years ended December 31:

<b>2016 (\$ in millions)<sup>(a)</sup></b>	Number of loans modified in a TDR during the year <sup>(b)</sup>	Recorded investment in loans modified in a TDR during the year	Increase to ALLL upon modification	Charge-offs recognized upon modification
Commercial loans and leases:				
Commercial and industrial loans	74	\$ 183	14	-
Commercial mortgage owner-occupied loans	12	11	-	-
Commercial mortgage nonowner-occupied loans	4	5	2	-
Commercial leases	5	16	-	-
Residential mortgage loans	924	137	8	-
Consumer loans:				
Home equity	219	15	-	-
Automobile loans	221	3	-	-
Credit card	9,519	43	8	4
<b>Total portfolio loans and leases</b>	<b>10,978</b>	<b>\$ 413</b>	<b>32</b>	<b>4</b>

(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.

<b>2015 (\$ in millions)<sup>(a)</sup></b>	Number of loans modified in a TDR during the year <sup>(b)</sup>	Recorded investment in loans modified in a TDR during the year	Increase (Decrease) to ALLL upon modification	Charge-offs recognized upon modification
Commercial loans:				
Commercial and industrial loans	77	\$ 146	7	3
Commercial mortgage owner-occupied loans	18	16	(2)	-
Commercial mortgage nonowner-occupied loans	12	7	(1)	-
Residential mortgage loans	1,089	155	8	-
Consumer loans:				
Home equity	267	16	(1)	-
Automobile loans	440	7	1	-
Credit card	12,569	62	11	7
<b>Total portfolio loans</b>	<b>14,472</b>	<b>\$ 409</b>	<b>23</b>	<b>10</b>

(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.

<b>2014 (\$ in millions)<sup>(a)</sup></b>	Number of loans modified in a TDR during the year <sup>(b)</sup>	Recorded investment in loans modified in a TDR during the year	Increase (Decrease) to ALLL upon modification	Charge-offs recognized upon modification
Commercial loans:				
Commercial and industrial loans	128	\$ 230	12	6
Commercial mortgage owner-occupied loans	32	54	(1)	-
Commercial mortgage nonowner-occupied loans	28	30	(3)	2
Residential mortgage loans	1,093	160	8	-
Consumer loans:				
Home equity	284	12	-	-
Automobile loans	608	10	1	-
Credit card	8,929	52	10	-
<b>Total portfolio loans</b>	<b>11,102</b>	<b>\$ 548</b>	<b>27</b>	<b>8</b>

(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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables provide a summary of TDRs that subsequently defaulted during the years ended December 31, 2016, 2015 and 2014 and were within twelve months of the restructuring date:

<b>December 31, 2016 (\$ in millions)<sup>(a)</sup></b>	Number of Contracts	Recorded Investment
Commercial loans and leases:		
Commercial and industrial loans	8	\$ 5
Commercial mortgage nonowner-occupied loans	2	-
Commercial leases	2	1
Residential mortgage loans	172	25
Consumer loans:		
Home equity	17	1
Automobile loans	2	-
Credit card	1,715	7
<b>Total portfolio loans and leases</b>	<b>1,918</b>	<b>\$ 39</b>

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

December 31, 2015 (\$ in millions) <sup>(a)</sup>	Number of Contracts	Recorded Investment
Commercial loans:		
Commercial and industrial loans	7	\$ 11
Commercial mortgage owner-occupied loans	3	1
Residential mortgage loans	156	21
Consumer loans:		
Home equity	15	1
Automobile loans	8	-
Credit card	1,935	8
<b>Total portfolio loans</b>	<b>2,124</b>	<b>\$ 42</b>

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

December 31, 2014 (\$ in millions) <sup>(a)</sup>	Number of Contracts	Recorded Investment
Commercial loans:		
Commercial and industrial loans	11	\$ 36
Commercial mortgage owner-occupied loans	3	4
Commercial mortgage nonowner-occupied loans	2	1
Residential mortgage loans	235	32
Consumer loans:		
Home equity	30	2
Automobile loans	6	-
Credit card	2,059	12
<b>Total portfolio loans</b>	<b>2,346</b>	<b>\$ 87</b>

*(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 December 31:

(\$ in millions)	Estimated Useful Life	2016	2015
Land and improvements <sup>(a)</sup>		\$ 663	685
Buildings <sup>(a)</sup>	2 - 30 yrs.	1,672	1,755
Equipment	2 - 30 yrs.	1,761	1,696
Leasehold improvements	1 - 30 yrs.	398	403
Construction in progress <sup>(a)</sup>		99	85
Bank premises and equipment held for sale:			
Land and improvements		29	55
Buildings		9	20
Equipment		1	3
Leasehold improvements		-	3
Accumulated depreciation and amortization		(2,567)	(2,466)
<b>Total bank premises and equipment</b>		<b>\$ 2,065</b>	<b>2,239</b>

(a) At **December 31, 2016** and 2015, land and improvements, buildings and construction in progress included \$92 and \$102, respectively, associated with parcels of undeveloped land intended for future branch expansion.

Depreciation and amortization expense related to bank premises and equipment was \$242 million, \$256 million and \$254 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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 in other noninterest income in the 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 in other noninterest income in the Consolidated Statements of Income. Both transactions were part of the Branch Consolidation and Sales Plan.

As of December 31, 2016, the Bancorp had 64 branch locations and 35 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 \$39 million, \$16 million and \$1 million of land and improvements, buildings and equipment, respectively, included in bank premises and equipment in the Consolidated Balance Sheets as of December 31, 2016, of which \$29 million, \$9 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 \$32 million, \$109 million and \$20 million for the years ended December 31, 2016, 2015 and 2014, respectively. The recognized impairment losses were recorded in other noninterest income in the Consolidated Statements of Income.

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 is being amortized as a reduction of rent expense over the 15 year lease term, and recorded a gain on the transaction of \$11 million in other noninterest income in the Consolidated Statements of Income.

Gross occupancy expense for cancelable and noncancelable leases, which is included in net occupancy expense in the Consolidated Statements of Income, was \$100 million, \$110 million and \$100 million for the years ended December 31, 2016, 2015 and 2014, respectively, which was reduced by rental income from leased premises of \$16 million, \$18 million and \$17 million during the years ended December 31, 2016, 2015 and 2014, respectively. The Bancorp's subsidiaries have entered into a number of noncancelable operating and capital lease agreements with respect to bank premises and equipment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the annual future minimum payments under noncancelable operating leases and capital leases for the years ending December 31:

(\$ in millions)	Noncancelable Operating Leases	Capital Leases
2017	\$ 88	6
2018	84	6
2019	77	5
2020	65	1
2021	52	-
Thereafter	210	1
Total minimum lease payments	\$ 576	19
Less: Amounts representing interest	-	2
Present value of net minimum lease payments	-	17

### 8. OPERATING LEASE 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. Total impairment losses associated with operating lease assets were \$20 million and

\$36 million for the years ended December 31, 2016 and 2015, respectively. The recognized impairment losses were recorded in corporate banking revenue in the Consolidated Statements of Income.

### 9. 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. 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.

Changes in the net carrying amount of goodwill, by reporting unit, for the years ended December 31, 2016 and 2015 were as follows:

(\$ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	Total
Goodwill	\$ 1,363	1,655	215	148	3,381
Accumulated impairment losses	(750)	-	(215)	-	(965)
Net carrying amount as of December 31, 2014	\$ 613	1,655	-	148	2,416
Acquisition activity	-	-	-	-	-
Net carrying amount as of December 31, 2015	\$ 613	1,655	-	148	2,416
Acquisition activity	-	-	-	-	-
<b>Net carrying amount as of December 31, 2016</b>	<b>\$ 613</b>	<b>1,655</b>	<b>-</b>	<b>148</b>	<b>2,416</b>

### 10. 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 December 31, 2016 of 4.1 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
<b>As of December 31, 2016</b>			
Core deposit intangibles	\$ 34	(27)	7
Other	15	(13)	2
Total intangible assets	\$ 49	(40)	9
As of December 31, 2015			
Core deposit intangibles	\$ 34	(26)	8
Other	33	(29)	4
Total intangible assets	\$ 67	(55)	12

As of December 31, 2016, all of the Bancorp's intangible assets were being amortized. Amortization expense recognized on

intangible assets for both the years ended December 31, 2016 and 2015 was \$2 million and amortization expense recognized on



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

intangible assets for the year ended December 31, 2014 was \$4 million. The Bancorp's projections of amortization expense shown on the following table is based on existing asset balances as of

December 31, 2016. Future amortization expense may vary from these projections.

Estimated amortization expense for the years ending December 31, 2017 through 2021 is as follows:

(\$ in millions)	Total
2017	\$ 2
2018	1
2019	1
2020	1
2021	1

### 11. 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 at risk 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 Consolidated Balance Sheets as of:

December 31, 2016 (\$ in millions)	Automobile Loan Securitizations	CDC Investments	Total
Assets:			
Cash and due from banks	\$ 84	1	85
Commercial mortgage loans	-	46	46
Automobile loans	1,170	-	1,170
ALLL	(6)	(20)	(26)
Other assets	9	-	9
<b>Total assets</b>	<b>\$ 1,257</b>	<b>27</b>	<b>1,284</b>
Liabilities:			
Other liabilities	\$ 3	-	3
Long-term debt	1,094	-	1,094
<b>Total liabilities</b>	<b>\$ 1,097</b>	<b>-</b>	<b>1,097</b>
<b>Noncontrolling interests</b>	<b>\$ -</b>	<b>27</b>	<b>27</b>

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 <sup>(a)</sup>	14	-	14
<b>Total assets<sup>(a)</sup></b>	<b>\$ 2,644</b>	<b>31</b>	<b>2,675</b>
Liabilities:			
Other liabilities	\$ 3	-	3
Long-term debt <sup>(a)</sup>	2,487	-	2,487
<b>Total liabilities<sup>(a)</sup></b>	<b>\$ 2,490</b>	<b>-</b>	<b>2,490</b>
<b>Noncontrolling interests</b>	<b>\$ -</b>	<b>31</b>	<b>31</b>

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 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 1.

#### *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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

### *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

### *Non-consolidated VIEs*

The following tables provide a summary of assets and liabilities carried on the 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:

<b>December 31, 2016 (\$ in millions)</b>	Total Assets	Total Liabilities	Maximum Exposure
CDC investments	\$ 1,421	357	1,421
Private equity investments	176	-	232
Loans provided to VIEs	1,735	-	2,672

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

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 Consolidated Financial Statements. This presentation includes reporting separately the equity attributable to the noncontrolling interests in the Consolidated Balance Sheets and Consolidated Statements of Changes in Equity and reporting separately the comprehensive income attributable to the noncontrolling interests in the Consolidated Statements of Comprehensive Income and the net income attributable to the noncontrolling interests in the Consolidated Statements of Income. The Bancorp's maximum exposure related to these indemnifications at December 31, 2016 and 2015 was \$31 million and \$27 million, respectively, which is based on an amount required to meet the investor member's defined target rate of return.

carrying amounts of these investments, which are included in other assets in the Consolidated Balance Sheets, and the liabilities related to the unfunded commitments, which are included in other liabilities in the 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 December 31, 2016 and 2015, the Bancorp's CDC investments included \$1.3 billion of investments in affordable housing tax credits recognized in other assets in the Consolidated Balance Sheets. The unfunded commitments related to these investments were \$349 million and \$356 million at December 31, 2016 and 2015, respectively. The unfunded commitments as of December 31, 2016 are expected to be funded from 2017 to 2033.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Consolidated Statements of Income relating to investments in qualified affordable housing investments:

For the years ended December 31 (\$ in millions)	Consolidated Statements of Income Caption	2016	2015	2014
Pre-tax investment and impairment losses <sup>(a)</sup>	Other noninterest expense	\$ 144	126	118
Tax credits and other benefits	Applicable income tax expense	(220)	(205)	(185)

*(a) The Bancorp did not recognize impairment losses resulting from the forfeiture or ineligibility of tax credits or other circumstances during the years ended December 31, 2016, 2015 and 2014.*

### *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 Consolidated Balance Sheets, are included in the previous tables. Also, at December 31, 2016 and 2015, the unfunded commitment amounts to the funds were \$56 million and \$60 million, respectively. As part of previous commitments, the Bancorp made capital contributions to private equity investments of \$14 million and \$30 million during the years ended December 31, 2016 and 2015, respectively. The Bancorp recognized \$9 million and \$1 million of OTTI primarily

associated with certain nonconforming investments affected by the Volcker Rule during the years ended December 31, 2016 and 2015, respectively. The Bancorp did not recognize any OTTI during the year ended December 31, 2014. Refer to Note 27 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 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 December 31, 2016 and 2015, the Bancorp's unfunded commitments to these entities were \$937 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.

**12. 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 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 have 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 years ended December 31, 2016, 2015 and 2014. 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 Consolidated Statements of Income, for the years ended December 31 is as follows:

(\$ in millions)	2016	2015	2014
Residential mortgage loan sales <sup>(a)</sup>	\$ 6,927	5,078 <sup>(b)</sup>	5,467
Origination fees and gains on loan sales	186	171	153
Gross mortgage servicing fees	199	222	246

(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 years ended December 31:

(\$ 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	83	63
Amortization	(131)	(140)
Other-than-temporary impairment	-	(111)
Balance, end of period	\$ 1,156	1,204
Valuation allowance for servicing rights:		
Balance, beginning of period	\$ (419)	(534)
Recovery of MSR impairment	7	4
Other-than-temporary impairment	-	111
Balance, end of period	(412)	(419)
Carrying amount after valuation allowance	\$ 744	785

Amortization expense recognized on servicing rights for the years ended December 31, 2016, 2015 and 2014 was \$131 million, \$140 million and \$121 million, respectively. The Bancorp's projections of

amortization expense shown below are based on existing asset balances and static key economic assumptions as of December 31, 2016. Future amortization expense may vary from these projections.

Estimated amortization expense for the years ending December 31, 2017 through 2021 is as follows:

(\$ in millions)	Total
2017	\$ 142
2018	124
2019	109
2020	96
2021	84

Temporary impairment or impairment recovery, effected through a change in the MSR valuation allowance, is captured as a component of mortgage banking net revenue in the Consolidated Statements of Income. Other-than-temporary impairment recognized through a write-off of the servicing right and related valuation allowance is captured as a component of servicing rights on the Consolidated Balance Sheets. 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 includes 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table displays the beginning and ending fair value of the servicing rights for the years ended December 31:

(\$ in millions)	2016	2015
Fixed-rate residential mortgage loans:		
Balance, beginning of period	\$ 757	823
Balance, end of period	722	757
Adjustable-rate residential mortgage loans:		
Balance, beginning of period	27	33
Balance, end of period	22	27
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 Consolidated Statements of Income for the years ended December 31:

(\$ in millions)	2016	2015	2014
Changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio	24	90	95
Recovery of (provision for) MSR impairment	7	4	(65)

As of December 31, 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 years ended December 31 were as follows:

		2016				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	7.2	10.3 %	584	N/A	6.9	11.0 %	534	N/A
Servicing rights	Adjustable	2.8	30.2	679	N/A	3.4	25.2	303	N/A

Based on historical credit experience, expected credit losses for residential mortgage loan servicing assets have been deemed immaterial, as the Bancorp sold the majority of the underlying loans without recourse. At December 31, 2016 and 2015, the Bancorp

serviced \$53.6 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 December 31, 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:

(\$ in millions) <sup>(a)</sup>	Rate	Fair Value	Weighted-Average Life (in years)	Prepayment Speed Assumption			OAS Spread (bps)	Residual Servicing Cash Flows	
				Rate	Impact of Adverse Change on Fair Value			Impact of Adverse Change on Fair Value	
					10%	20%			50%
Residential mortgage loans:									
Servicing rights	Fixed	\$ 722	6.5	10.2 %	\$ (28)	(55)	(124)	654	\$ (18) (35)
Servicing rights	Adjustable	22	3.2	25.3	(1)	(3)	(6)	738	- (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.

### 13. 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 December 31, 2016 and 2015, the balance of collateral held by the Bancorp for derivative assets was \$444 million and \$821 million, respectively. The credit component negatively impacting the fair value of derivative assets associated with customer accommodation contracts as of December 31, 2016 and 2015 was \$6 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 December 31, 2016 and 2015, the balance of collateral posted by the Bancorp for derivative liabilities was \$399 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 December 31, 2016 and 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 Bancorp's 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 Bancorp's 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 Consolidated Balance Sheets while derivative instruments with a negative fair value are reported in other liabilities in the Consolidated Balance Sheets. Cash collateral payables and receivables associated with the derivative instruments are not added to or netted against the fair value amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Notional Amount	Fair Value	
		Derivative Assets	Derivative Liabilities
<b>December 31, 2016 (\$ in millions)</b>			
<b>Derivatives Designated as Qualifying Hedging Instruments</b>			
Fair value hedges:			
Interest rate swaps related to long-term debt	\$ 3,455	323	12
Total fair value hedges		323	12
Cash flow hedges:			
Interest rate swaps related to C&I loans	4,475	22	-
Total cash flow hedges		22	-
Total derivatives designated as qualifying hedging instruments		345	12
<b>Derivatives Not Designated as Qualifying Hedging Instruments</b>			
Free-standing derivatives - risk management and other business purposes:			
Interest rate contracts related to MSRs	10,522	165	39
Forward contracts related to residential mortgage loans held for sale	1,823	20	3
Swap associated with the sale of Visa, Inc. Class B Shares	1,300	-	91
Foreign exchange contracts	111	-	-
Total free-standing derivatives - risk management and other business purposes		185	133
Free-standing derivatives - customer accommodation:			
Interest rate contracts for customers	33,431	205	210
Interest rate lock commitments	701	13	1
Commodity contracts	2,095	107	106
Foreign exchange contracts	11,013	202	204
Total free-standing derivatives - customer accommodation		527	521
Total derivatives not designated as qualifying hedging instruments		712	654
<b>Total</b>	<b>\$</b>	<b>1,057</b>	<b>666</b>

	Notional Amount	Fair Value	
		Derivative Assets	Derivative Liabilities
<b>December 31, 2015 (\$ in millions)</b>			
<b>Derivatives Designated as Qualifying Hedging Instruments</b>			
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
<b>Derivatives Not Designated as Qualifying Hedging Instruments</b>			
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
<b>Total</b>	<b>\$</b>	<b>1,852</b>	<b>938</b>

**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 December 31, 2016, an assessment of hedge effectiveness using regression analysis was performed 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 Consolidated Statements of Income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Consolidated Statements of Income:

For the years ended December 31 (\$ in millions)	Consolidated Statements of Income Caption	2016	2015	2014
Change in fair value of interest rate swaps hedging long-term debt	Interest on long-term debt	\$ (59)	(29)	120
Change in fair value of hedged long-term debt attributable to the risk being hedged	Interest on long-term debt	54	25	(126)

### **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 December 31, 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 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 December 31, 2016, the maximum length of time over which the

Bancorp is hedging its exposure to the variability in future cash flows is 36 months.

Reclassified gains and losses on interest rate contracts related to commercial and industrial loans are recorded within interest income in the Consolidated Statements of Income. As of December 31, 2016 and 2015, \$10 million and \$22 million, respectively, of net deferred gains, net of tax, on cash flow hedges were recorded in AOCI in the Consolidated Balance Sheets. As of December 31, 2016, \$15 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 December 31, 2016.

During the years ended 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 pre-tax net gains recorded in the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income relating to derivative instruments designated as cash flow hedges:

For the years ended December 31 (\$ in millions)	2016	2015	2014
Amount of pre-tax net gains recognized in OCI	\$ 30	74	60
Amount of pre-tax net gains reclassified from OCI into net income	48	75	44

### **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 Consolidated Statements of Income.

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 27 for further discussion of significant inputs and assumptions used in the valuation of the warrant. During the year ended December 31, 2015, the Bancorp both sold and exercised part of the warrant. During the year ended December 31, 2016, the Bancorp exercised the remaining portion of the warrant. For more information, refer to Note 19.

In conjunction with the 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 27 for further discussion of significant inputs and assumptions used in the valuation of this instrument.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

For the years ended December 31 (\$ in millions)	Consolidated Statements of Income Caption	2016	2015	2014
Interest rate contracts:				
Forward contracts related to residential mortgage loans held for sale	Mortgage banking net revenue	\$ 14	8	(18)
Interest rate contracts related to MSR portfolio	Mortgage banking net revenue	24	90	95
Foreign exchange contracts:				
Foreign exchange contracts for risk management purposes	Other noninterest income	2	23	14
Equity contracts:				
Stock warrant associated with Vantiv Holding, LLC	Other noninterest income	73 <sup>(a)</sup>	325 <sup>(a)</sup>	31
Swap associated with sale of Visa, Inc. Class B Shares	Other noninterest income	(56)	(37)	(38)

(a) The Bancorp recognized a net gain of \$9 on the exercise of the remaining warrant during the fourth quarter of 2016 and a net gain of \$89 on both the sale and partial exercise of the warrant during the fourth quarter of 2015.

**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 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, 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 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 December 31, 2016 and 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 at December 31, 2016 and \$3 million at December 31, 2015, which is included in other liabilities in the Consolidated Balance Sheets. As of December 31, 2016, the risk participation agreements had a weighted-average remaining life of 3.1 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:

At December 31 (\$ in millions)	2016	2015
Pass	\$ 2,447	1,650
Special mention	14	7
Substandard	6	7
Total	\$ 2,467	1,664

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

For the years ended December 31 (\$ in millions)	Consolidated Statements of Income Caption	2016	2015	2014
<b>Interest rate contracts:</b>				
Interest rate contracts for customers (contract revenue)	Corporate banking revenue	\$ 22	23	19
Interest rate contracts for customers (credit losses)	Other noninterest expense	-	(1)	(3)
Interest rate contracts for customers (credit portion of fair value adjustment)	Other noninterest expense	1	1	3
Interest rate lock commitments	Mortgage banking net revenue	114	111	124
<b>Commodity contracts:</b>				
Commodity contracts for customers (contract revenue)	Corporate banking revenue	6	5	6
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	(7)
<b>Foreign exchange contracts:</b>				
Foreign exchange contracts for customers (contract revenue)	Corporate banking revenue	62	70	72
Foreign exchange contracts for customers (credit losses)	Other noninterest expense	(2)	-	-
Foreign exchange contracts for customers (credit portion of fair value adjustment)	Other noninterest expense	1	-	-

**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 on the 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 December 31, 2016 (\$ in millions)	Gross Amount Recognized in the Consolidated Balance Sheets <sup>(a)</sup>	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
		Derivatives	Collateral <sup>(b)</sup>	
<b>Assets</b>				
Derivatives	\$ 1,044	(374)	(377)	293
Total assets	1,044	(374)	(377)	293
<b>Liabilities</b>				
Derivatives	665	(374)	(125)	166
Total liabilities	\$ 665	(374)	(125)	166

(a) Amount does not include 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 Consolidated Balance Sheets were excluded from this table.

As of December 31, 2015 (\$ in millions)	Gross Amount Recognized in the Consolidated Balance Sheets <sup>(a)</sup>	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
		Derivatives	Collateral <sup>(b)</sup>	
<b>Assets</b>				
Derivatives	\$ 1,575	(512)	(627)	436
Total assets	1,575	(512)	(627)	436
<b>Liabilities</b>				
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 Consolidated Balance Sheets were excluded from this table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. OTHER ASSETS

The following table provides the components of other assets included in the Consolidated Balance Sheets as of December 31:

(\$ in millions)	2016	2015
Accounts receivable and drafts-in-process	\$ 2,158	1,653
Partnership investments	1,689	1,756
Bank owned life insurance	1,681	1,651
Derivative instruments	1,057	1,852
Investment in Vantiv Holding, LLC	414	360
Accrued interest and fees receivable	350	329
Vantiv, Inc. TRA put/call receivable	165	-
OREO and other repossessed personal property	84	155
Prepaid expenses	83	101
Other	163	108 <sup>(a)</sup>
<b>Total other assets</b>	<b>\$ 7,844</b>	<b>7,965 <sup>(a)</sup></b>

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 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 1.

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, which are included above in partnership investments. In addition, Fifth Third Capital Holdings, a wholly-owned indirect subsidiary of the Bancorp, invests as a direct private equity investor and as a limited partner in private equity funds, which are included above as partnership investments. The Bancorp has determined that these partnership investments are VIEs and the Bancorp's investments represent variable interests. Refer to Note 11 for further information. The Bancorp recognized \$9 million and \$1 million of OTTI on its investments in private equity funds during the years ended December 31, 2016 and 2015, respectively. The Bancorp did not recognize OTTI on its investments in private equity funds during the year ended December 31, 2014. Refer to Note 27 for further information.

The Bancorp purchases life insurance policies on the lives of certain directors, officers and employees and is the owner and beneficiary of the policies. Certain BOLI policies have a stable value agreement through either a large, well-rated bank or multi-national insurance carrier that provides limited cash surrender value protection from declines in the value of each policy's underlying investments. Refer to Note 1 for further information.

The Bancorp utilizes derivative instruments as part of its overall risk management strategy to reduce certain risks related to interest rate, prepayment and foreign currency volatility. The Bancorp also holds derivatives instruments for the benefit of its commercial customers and for other business purposes. For further information on derivative instruments, refer to Note 13.

In 2009, the Bancorp sold an approximate 51% interest in its processing business, Vantiv Holding, LLC. As a result of additional share sales completed by the Bancorp, its current ownership share in Vantiv Holding, LLC is approximately 18%. The Bancorp's ownership in Vantiv Holding, LLC is currently accounted for under the equity method of accounting. Refer to Note 19 for further information.

During 2016 the Bancorp entered into an agreement with Vantiv, Inc. in which Vantiv, Inc. may be obligated to pay 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.

OREO represents property acquired through foreclosure or other proceedings and is carried at the lower of cost or fair value, less costs to sell. Refer to Note 1 for further information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**15. SHORT-TERM BORROWINGS**

Borrowings with original maturities of one year or less are classified as short-term and include federal funds purchased and other short-term borrowings. Federal funds purchased are excess balances in reserve accounts held at the FRB that the Bancorp purchased from

other member banks on an overnight basis. Other short-term borrowings include securities sold under repurchase agreements, derivative collateral, FHLB advances and other borrowings with original maturities of one year or less.

The following table summarizes short-term borrowings and weighted-average rates:

(\$ in millions)	2016		2015	
	Amount	Rate	Amount	Rate
As of December 31:				
Federal funds purchased	\$ 132	0.61%	\$ 151	0.30%
Other short-term borrowings	3,535	0.54	1,507	0.11
Average for the years ended December 31:				
Federal funds purchased	\$ 506	0.39%	\$ 920	0.13%
Other short-term borrowings	2,845	0.36	1,721	0.12
Maximum month-end balance for the years ended December 31:				
Federal funds purchased	\$ 739		\$ 200	
Other short-term borrowings	6,374		4,904	

The following table presents a summary of the Bancorp's other short-term borrowings as of December 31:

(\$ in millions)	2016	2015
FHLB advances	\$ 2,500	-
Securities sold under repurchase agreements	661	925
Derivative collateral	374	582
Total other short-term borrowings	\$ 3,535	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 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 December 31:

(\$ in millions)	2016		2015	
	Amount	Remaining Contractual Maturity	Amount	Remaining Contractual Maturity
Type of Collateral:				
Agency residential mortgage-backed securities	\$ 661	Overnight	\$ 646	Overnight
U.S. Treasury and federal agencies securities	-	Overnight	279	Overnight
Total securities sold under repurchase agreements	\$ 661		\$ 925	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. LONG-TERM DEBT

The following table is a summary of the Bancorp's long-term borrowings at December 31:

(\$ in millions)	Maturity	Interest Rate	2016	2015 <sup>(a)</sup>
<b>Parent Company</b>				
Senior:				
Fixed-rate notes	2016	3.625%	\$ -	1,000
Fixed-rate notes	2019	2.30%	499	498
Fixed-rate notes	2020	2.875%	1,096	1,094
Fixed-rate notes	2022	3.50%	497	496
Subordinated: <sup>(a)</sup>				
Floating-rate notes <sup>(a)</sup>	2016	0.99%	-	250
Fixed-rate notes	2017	5.45%	501	520
Fixed-rate notes	2018	4.50%	519	532
Fixed-rate notes	2024	4.30%	746	746
Fixed-rate notes	2038	8.25%	1,312	1,320
<b>Subsidiaries</b>				
Senior:				
Fixed-rate notes	2016	1.15%	-	999
Fixed-rate notes	2016	0.90%	-	400
Floating-rate notes <sup>(a)</sup>	2016	0.87%	-	749
Floating-rate notes <sup>(a)</sup>	2016	0.82%	-	300
Fixed-rate notes	2017	1.35%	650	652
Fixed-rate notes	2018	2.15%	997	996
Fixed-rate notes	2018	1.45%	598	597
Floating-rate notes <sup>(a)</sup>	2018	1.82%	250	250
Fixed-rate notes	2019	2.375%	849	848
Fixed-rate notes	2019	2.30%	748	-
Fixed-rate notes	2019	1.625%	737	-
Floating-rate notes <sup>(a)</sup>	2019	1.59%	249	-
Fixed-rate notes	2021	2.25%	1,246	-
Fixed-rate notes	2021	2.875%	845	844
Subordinated: <sup>(a)</sup>				
Fixed-rate bank notes	2026	3.85%	746	-
Junior subordinated: <sup>(b)</sup>				
Floating-rate debentures <sup>(a)</sup>	2035	2.38% - 2.65%	52	52
FHLB advances	2017 - 2041	0.05% - 6.87%	33	37
Notes associated with consolidated VIEs:				
Automobile loan securitizations:				
Fixed-rate notes	2018 - 2022	0.68% - 1.79%	1,061	2,301
Floating-rate notes <sup>(a)</sup>	2018	1.25%	33	186
Other	2017 - 2039	Varies	124	143
<b>Total</b>			<b>\$ 14,388</b>	<b>15,810</b>

(a) In aggregate, \$2.7 billion and \$2.4 billion qualifies as Tier II capital for regulatory capital purposes as of December 31, 2016 and 2015, respectively.

(b) Under the Basel III Final Rule transition provisions, \$0 and \$13 qualified as Tier I capital as of December 31, 2016 and 2015, respectively, while the remaining amounts as of December 31, 2016 and 2015 qualify as Tier II capital. Refer to Note 28 for further information.

(c) These rates reflect the floating rates as of December 31, 2016.

(d) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 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 1.

The Bancorp pays down long-term debt in accordance with contractual terms over maturity periods summarized in the above table. The aggregate annual maturities of long-term debt obligations (based on final maturity dates) as of December 31, 2016 are presented in the following table:

(\$ in millions)	Parent	Subsidiaries	Total
2017	\$ 501	655	1,156
2018	519	2,124	2,643
2019	499	2,782	3,281
2020	1,096	547	1,643
2021	-	2,196	2,196
Thereafter	2,555	914	3,469
<b>Total</b>	<b>\$ 5,170</b>	<b>9,218</b>	<b>14,388</b>

At December 31, 2016, the Bancorp had outstanding principal balances of \$14.1 billion, net discounts of \$24 million, debt issuance costs of \$33 million and additions for mark-to-market adjustments on its hedged debt of \$328 million. At December 31, 2015, the

Bancorp had outstanding principal balances of \$15.5 billion, net discounts of \$24 million, debt issuance costs of \$34 million and additions for mark-to-market adjustments on its hedged debt of \$382 million. The Bancorp was in compliance with all debt

covenants at December 31, 2016 and 2015.

**Parent Company Long-Term Borrowings**

*Senior Notes*

On March 7, 2012, the Bancorp issued and sold \$500 million of senior notes to third-party investors and entered into a Supplemental Indenture dated March 7, 2012 with the Trustee, which modified the existing Indenture for Senior Debt Securities dated April 30, 2008. The Supplemental Indenture and the Indenture define the rights of the senior notes and that they are represented by a Global Security dated as of March 7, 2012. The senior notes bear a fixed-rate of interest of 3.50% per annum. The notes are unsecured, senior obligations of the Bancorp. Payment of the full principal amounts of the notes will be due upon maturity on March 15, 2022. These fixed-rate senior notes will be redeemable by the Bancorp, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

On February 28, 2014, the Bancorp issued and sold \$500 million of senior notes to third-party investors. The senior notes bear a fixed-rate of interest of 2.30% per annum. The notes are unsecured, senior obligations of the Bancorp. Payment of the full principal amounts of the notes is due upon maturity on March 1, 2019. These fixed-rate senior notes will be redeemable by the Bancorp, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

On July 27, 2015, the Bancorp issued and sold \$1.1 billion of senior notes to third-party investors. The senior notes bear a fixed-rate of interest of 2.875% per annum. The notes are unsecured, senior obligations of the Bancorp. Payment of the full principal amounts of the notes is due upon maturity on July 27, 2020. These fixed-rate senior notes will be redeemable by the Bancorp, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

*Subordinated Debt*

The Bancorp has entered into interest rate swaps to convert its subordinated fixed-rate notes due in 2017 and 2018 to floating-rate, which pay interest at three-month LIBOR plus 42 bps and 25 bps, respectively, at December 31, 2016. The rates paid on the swaps hedging the subordinated floating-rate notes due in 2017 and 2018 were 1.34% and 1.18%, respectively, at December 31, 2016. Of the \$1.0 billion in 8.25% subordinated fixed-rate notes due in 2038, \$705 million were subsequently hedged to floating and paid a rate of 3.98% at December 31, 2016.

On November 20, 2013, the Bancorp issued and sold \$750 million of 4.30% unsecured subordinated fixed-rate notes due on January 16, 2024. These fixed-rate notes will be redeemable by the Bancorp, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

**Subsidiary Long-Term Borrowings**

*Senior and Subordinated Debt*

Medium-term senior notes and subordinated bank notes with maturities ranging from one year to 30 years can be issued by the Bancorp's banking subsidiary. Under the Bancorp's banking subsidiary's global bank note program, the Bank's capacity to issue its senior and subordinated unsecured bank notes is \$25 billion. As

of December 31, 2016, \$17.1 billion was available for future issuance under the global bank note program.

On February 28, 2013, the Bank issued and sold, under its bank notes program, \$600 million of 1.45% unsecured senior fixed-rate bank notes due on February 28, 2018. 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 through the redemption date.

On April 25, 2014, the Bank issued and sold, under its bank notes program, \$1.5 billion in aggregate principal amount of unsecured senior bank notes. The bank notes consisted of \$850 million of 2.375% senior fixed-rate notes due on April 25, 2019 and \$650 million of 1.35% senior fixed-rate notes due on June 1, 2017. 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 5, 2014, the Bank issued and sold, under its bank notes program, \$850 million of 2.875% unsecured senior fixed-rate bank notes due on October 1, 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 August 20, 2015, the Bank issued and sold, under its bank notes program, \$1.3 billion in aggregate principal amount of unsecured senior bank notes. The bank notes consisted of \$1.0 billion of 2.15% senior fixed-rate notes due on August 20, 2018 and \$250 million of senior floating-rate notes due on August 20, 2018. The Bancorp entered into interest rate swaps to convert the fixed-rate notes to floating-rate, which resulted in an effective rate of three-month LIBOR plus 90 bps. Interest on the floating-rate notes is three-month LIBOR plus 91 bps. These bank notes will be redeemable by the Bank, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

On March 15, 2016, the Bank issued and sold, under its bank notes program, \$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 due on March 15, 2019; and \$750 million of 3.85% subordinated fixed-rate notes 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, under its bank notes program, \$1.3 billion of 2.25% unsecured senior fixed-rate notes 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 27, 2016, the Bank issued and sold, under its bank notes program, \$1.0 billion in aggregate principal amount of unsecured senior bank notes 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

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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.

### *Junior Subordinated Debt*

The junior subordinated floating-rate bank notes due in 2035 were assumed by the Bancorp's banking subsidiary as part of the acquisition of First Charter in June 2008. The obligation was issued to First Charter Capital Trust I and II, respectively. The notes of First Charter Capital Trust I and II pay a floating rate at three-month LIBOR plus 169 bps and 142 bps, respectively. The Bancorp's nonbank subsidiary holding company has fully and unconditionally guaranteed all obligations under the acquired TruPS issued by First Charter Capital Trust I and II.

### *FHLB Advances*

At December 31, 2016, FHLB advances have rates ranging from 0.05% to 6.87%, with interest payable monthly. The Bancorp has pledged \$17.3 billion of certain residential mortgage loans and securities to secure its borrowing capacity at the Federal Home Loan Bank which is partially utilized to fund \$33 million in FHLB advances that are outstanding. The FHLB advances mature as follows: \$1 million in 2017, \$4 million in 2018, \$9 million in 2019, \$3 million in 2020, \$3 million in 2021 and \$13 million thereafter.

### *Notes Associated with Consolidated VIEs*

As previously discussed in Note 11, the Bancorp was determined to be the primary beneficiary of various VIEs associated with certain automobile loan securitization transactions. As such, \$1.1 billion of long-term debt related to these VIEs was consolidated in the Bancorp's Consolidated Financial Statements as of December 31, 2016. Third-party holders of this debt do not have recourse to the general assets of the Bancorp.

**17. 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 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 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 December 31:

(\$ in millions)	2016	2015
Commitments to extend credit	\$ 67,909	66,884
Letters of credit	2,583	3,055
Forward contracts related to residential mortgage loans held for sale	1,823	1,330
Noncancelable operating lease obligations	576	635
Capital commitments for private equity investments	59	60
Purchase obligations	57	60
Capital expenditures	29	30
Capital lease obligations	19	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 December 31, 2016 and 2015, the Bancorp had a reserve for unfunded commitments, including letters of credit, totaling \$161 million and \$138 million, respectively, included in other liabilities in the 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 December 31:

(\$ in millions)	2016	2015
Pass	\$ 66,802	65,645
Special mention	338	647
Substandard	753	592
Doubtful	16	-
Total commitments to extend credit	\$ 67,909	66,884

*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 December 31, 2016:

(\$ in millions)		
Less than 1 year <sup>(a)</sup>	\$	1,387
1 - 5 years <sup>(a)</sup>		1,164
Over 5 years		32
Total letters of credit	\$	2,583

(a) Includes \$18 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 December 31, 2016 and 2015, and are considered guarantees in accordance with U.S. GAAP. Approximately 62% and 65% of the total standby letters of credit were collateralized as of December 31, 2016 and 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 is included in the total reserve for unfunded commitments, was \$3 million at December 31, 2016 and immaterial at 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Risk ratings under this risk rating system are summarized in the following table as of December 31:

(\$ in millions)	2016	2015
Pass	\$ 2,134	2,606
Special mention	98	130
Substandard	290	258
Doubtful	61	61
Total letters of credit	\$ 2,583	3,055

At December 31, 2016 and 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 December 31, 2016 and 2015, total VRDNs in which the Bancorp was the remarketing agent or were supported by a Bancorp letter of credit were \$929 million and \$1.3 billion, respectively, of which FTS acted as the remarketing agent to issuers on \$784 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 \$609 million and \$921 million of the VRDNs remarketed by FTS, in addition to \$145 million and \$187 million in VRDNs remarketed by third parties at December 31, 2016 and 2015, respectively. These letters of credit are included in the total letters of credit balance provided in the previous table. The Bancorp held \$6 million and an immaterial amount of these VRDNs in its portfolio and classified them as trading securities at December 31, 2016 and 2015, respectively.

### *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 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 are required to obtain PMI provided by third-party insurers. In some instances, these insurers ceded a portion of the PMI premiums to the Bancorp, and the Bancorp provided reinsurance coverage within a specified range of the total PMI coverage. The Bancorp's reinsurance coverage typically ranged from 5% to 10% of the total PMI coverage. The Bancorp's maximum exposure in the event of nonperformance by the underlying borrowers was equivalent to the Bancorp's total outstanding reinsurance coverage, which was \$27 million at December 31, 2015. 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 Consolidated Balance Sheets. 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. During the fourth quarter of 2016, the final policies under the reinsurance agreement were terminated and as of December 31, 2016 the Bancorp no longer had any remaining exposure or reserves related to exposure within the reinsurance portfolio.

#### *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 18 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.

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 December 31, 2016 and 2015, the Bancorp maintained reserves related to loans sold with representation and warranty provisions totaling \$13 million and \$25 million, respectively, included in other liabilities in the 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 December 31, 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 \$21 million in excess of amounts reserved. This estimate was derived by modifying the key

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

During the years ended December 31, 2016 and 2015, the Bancorp paid \$1 million and \$2 million, respectively, in the form of

make whole payments and repurchased \$17 million and \$74 million, respectively, in outstanding principal of loans to satisfy investor demands. Total repurchase demand requests during the years ended December 31, 2016 and 2015 were \$22 million and \$75 million, respectively. Total outstanding repurchase demand inventory was \$2 million at December 31, 2016 compared to \$4 million at December 31, 2015.

The following table summarizes activity in the reserve for representation and warranty provisions for the years ended December 31:

(\$ in millions)	2016	2015
Balance, beginning of period	\$ 25	35
Net reductions to the reserve	(10)	(3)
Losses charged against the reserve	(2)	(7)
Balance, end of period	\$ 13	25

The following tables provide a rollforward of unresolved claims by claimant type for the years ended December 31:

2016 (\$ in millions)	GSE		Private Label	
	Units	Dollars	Units	Dollars
Balance, beginning of period	16	\$ 4	2	\$ -
New demands	309	22	4	-
Loan paydowns/payoffs	(8)	(1)	-	-
Resolved demands	(304)	(23)	(6)	-
Balance, end of period	13	\$ 2	-	\$ -

2015 (\$ in millions)	GSE		Private Label	
	Units	Dollars	Units	Dollars
Balance, beginning of period	37	\$ 6	1	\$ 1
New demands	436	33	261	42
Loan paydowns/payoffs	(29)	(2)	-	-
Resolved demands	(428)	(33)	(260)	(43)
Balance, end of period	16	\$ 4	2	\$ -

### *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 \$374 million and \$465 million at December 31, 2016 and 2015, respectively, and the delinquency rates were 3.2% at December 31, 2016 and 3.0% at December 31, 2015. The Bancorp maintained an estimated credit loss reserve on these loans sold with credit recourse of \$7 million and \$9 million at December 31, 2016 and 2015, respectively, recorded in other liabilities in the 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 at December 31, 2016 and \$10 million at December 31, 2015. 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 December 31, 2016 and 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 27 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.

As of the date of the Bancorp's sale of the Visa Class B Shares and through December 31, 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 the 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 \$91 million and \$61 million at December 31, 2016 and 2015, respectively. Refer to Note 13 and Note 27 for further information.

After the Bancorp's sale of the 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

**18. 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 17 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 pre-trial proceedings. 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. Fifth Third currently has claims pending against other defendants, including a 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.

***Helton v. Fifth Third Bank***

On August 31, 2015, trust beneficiaries filed an action against Fifth Third Bank, as trustee, in the Probate Court for Hamilton County, Ohio (*Helen Clarke Helton, et al. v. Fifth Third Bank*). The plaintiffs allege breach of the duty to diversify, breach of the duty of impartiality, breach of trust/fiduciary duty, and unjust enrichment, based on Fifth Third's alleged failure to diversify assets held in two trusts held for the plaintiffs' benefit. The lawsuit seeks unspecified monetary damages, attorney's fees, removal of Fifth Third as trustee, and injunctive relief. On January 5, 2016, the Court denied Fifth Third's motion to dismiss. The parties are currently engaged in pre-trial proceedings. Trial is currently scheduled for September 18, 2017.

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### *Upsher-Smith Laboratories, Inc. v. Fifth Third Bank*

On February 2, 2012, Upsher-Smith Laboratories, Inc. (“Upsher-Smith”) filed suit against Fifth Third Bank in the Fourth Judicial District, Hennepin County, Minnesota (Upsher-Smith Laboratories Inc. v. Fifth Third Bank), alleging that Fifth Third improperly implemented foreign exchange (“FX”) transactions requested by plaintiff’s authorized employee who allegedly was the victim of fraud by a third party. Plaintiff asserts claims for breach of contract and the implied covenant of good faith and fair dealing and under Article 4A-202 of the Uniform Commercial Code, with losses allegedly totalling almost \$40 million. On March 3, 2016, Fifth Third removed the case to the United States District Court for the District of Minnesota. Fifth Third filed a motion to transfer venue to the United States District Court for the Southern District of Ohio on April 7, 2016, which was denied on December 29, 2016. Discovery was stayed pending the Court’s ruling on the motion to transfer. No trial date has been scheduled.

### *The Champions Home Owners Association, Inc. v. Jeffrey D. Quammen, et al.*

On September 12, 2013 Fifth Third Bank was named as a defendant in a cross-complaint filed by Royce Pulliam, P&P Real Estate, LLC and Global Fitness Holdings, LLC (“Plaintiffs”) in the Jessamine Circuit Court in Jessamine County, Kentucky. The Plaintiffs allege that Fifth Third Bank breached a contract to provide commercial funding for Plaintiffs’ national fitness franchise. The Plaintiffs claim to have sustained over \$50 million in damages from the alleged contract breach. Fifth Third Bank denies that any breach of contract occurred, and further asserts that Plaintiffs executed multiple releases waiving the claims at issue in the litigation. Fifth Third Bank has asserted a \$1.5 million claim against Plaintiff Royce Pulliam for breach of guaranty. On February 3, 2017 the Jessamine Circuit Court ruled in favor of Fifth Third Bank granting summary judgment on Fifth Third’s claim for breach of guaranty. The Court denied Fifth Third Bank’s motion for summary judgment seeking dismissal of the Plaintiffs’ claims. The case is set for a bench trial beginning February 27, 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.

### ***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 \$43 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.

**19. RELATED PARTY TRANSACTIONS**

The Bancorp maintains written policies and procedures covering related party transactions with principal shareholders, directors and executives of the Bancorp. These procedures cover transactions such as employee-stock purchase loans, personal lines of credit, residential secured loans, overdrafts, letters of credit and increases in indebtedness. Such transactions are subject to the Bancorp's normal underwriting and approval procedures. Prior to approving a loan to

a related party, Compliance Risk Management must review and determine whether the transaction requires approval from or a post notification to the Bancorp's Board of Directors. At December 31, 2016 and 2015, certain directors, executive officers, principal holders of Bancorp common stock and their related interests were indebted, including undrawn commitments to lend, to the Bancorp's banking subsidiary.

The following table summarizes the Bancorp's lending activities with its principal shareholders, directors, executives and their related interests at December 31:

(\$ in millions)	2016	2015
Commitments to lend, net of participations:		
Directors and their affiliated companies	\$ 618	831
Executive officers	4	5
Total	\$ 622	836
Outstanding balance on loans, net of participations and undrawn commitments	\$ 54	97

The commitments to lend are in the form of loans and guarantees for various business and personal interests. This indebtedness was incurred in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. This indebtedness does not involve more than the normal risk of repayment or present other features unfavorable to the Bancorp.

*Vantiv Holding, LLC*

On June 30, 2009, the Bancorp completed the sale of a majority interest in its processing business, Vantiv Holding, LLC. Advent

International acquired an approximate 51% interest in Vantiv Holding, LLC for cash and a warrant. The Bancorp retained the remaining approximate 49% interest in Vantiv Holding, LLC.

During the first quarter of 2012, Vantiv, Inc. priced an IPO of its shares and contributed the net proceeds to Vantiv Holding, LLC for additional ownership interests. As a result of this offering, the Bancorp's ownership of Vantiv Holding, LLC was reduced to approximately 39%. The impact of the capital contributions to Vantiv Holding, LLC and the resulting dilution in the Bancorp's interest resulted in a gain of \$115 million recognized by the Bancorp in the first quarter of 2012.

The following table provides a summary of the sales transactions that impacted the Bancorp's ownership interest in Vantiv Holding, LLC after the initial IPO:

(\$ in millions)	Ownership Percentage Sold	Gain on Sale	Remaining Ownership Percentage <sup>(a)</sup>
Q4 2012	6 %	\$ 157	33 %
Q2 2013	5	242	28
Q3 2013	3	85	25
Q2 2014	3	125	23
Q4 2015	5	331	18

(a) The Bancorp's remaining investment in Vantiv Holding, LLC of \$414 as of December 31, 2016 was accounted for as an equity method investment in the Bancorp's Consolidated Financial Statements.

The Bancorp agreed during the fourth quarter of 2015 to cancel rights to purchase approximately 4.8 million Class C Units in Vantiv Holding, LLC, the wholly-owned principal operating subsidiary of Vantiv, Inc., underlying the warrant in exchange for a cash payment of \$200 million. Subsequent to this cancellation, the Bancorp exercised its right to purchase approximately 7.8 million Class C Units underlying the warrant at the \$15.98 strike price. This exercise was settled on a net basis for approximately 5.4 million Class C Units, which were then exchanged for approximately 5.4 million shares of Vantiv, Inc. Class A Common Stock that were sold in the secondary offering. The Bancorp recognized a gain of \$89 million in other noninterest income on the 62% of the warrant that was settled or net exercised. Additionally, during the fourth quarter of 2015, the Bancorp exchanged 8 million Class B Units of Vantiv Holding, LLC for 8 million Class A Shares in Vantiv, Inc., which were also sold in the secondary offering and on which the Bancorp recognized a gain of \$331 million in other noninterest income.

During the fourth quarter of 2016, the Bancorp exercised its right to purchase approximately 7.8 million Class C Units underlying

the warrant at the \$15.98 strike price. This exercise was settled on a net basis for approximately 5.7 million Class C Units, which were then exchanged for approximately 5.7 million shares of Vantiv, Inc. Class A Common Stock of which 4.8 million shares were sold in a secondary offering and 0.9 million shares were repurchased by Vantiv, Inc. The Bancorp recognized a gain of \$9 million in other noninterest income in the Consolidated Statements of Income in 2016 on the exercise of the remaining warrant in Vantiv Holding, LLC.

As of December 31, 2016, the Bancorp continued to hold approximately 35 million Class B Units of Vantiv Holding, LLC which may be exchanged for Class A Common Stock of Vantiv, Inc. on a one-for-one basis or at Vantiv, Inc.'s option for cash which represents approximately 17.9% ownership of Vantiv, Holding, LLC. In addition, the Bancorp holds approximately 35 million Class B Common Shares of Vantiv, Inc. The Class B Common Shares give the Bancorp voting rights, but no economic interest in Vantiv, Inc. At any time, other than in connection with a stockholder vote with respect to a change in control in Vantiv, Inc.,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the voting rights attributable to the Class B Common Shares are limited to the lesser of 18.5% or the Bancorp's ownership percentage of Vantiv Holding, LLC, currently 17.9%. These securities are subject to certain terms and restrictions.

The Bancorp recognized \$66 million, \$63 million and \$48 million, respectively, in other noninterest income as part of its equity method investment in Vantiv Holding, LLC for the years ended December 31, 2016, 2015 and 2014 and received cash distributions totaling \$9 million, \$11 million and \$23 million during the years ended December 31, 2016, 2015 and 2014, respectively. The Bancorp's remaining investment in Vantiv Holding, LLC continues to be accounted for under the equity method of accounting as of December 31, 2016.

During the fourth quarter of 2015, the Bancorp entered into an agreement with Vantiv, Inc. under which a portion of its TRA with Vantiv, Inc. was terminated and settled in full for a cash payment of approximately \$49 million from Vantiv, Inc. Under the agreement, the Bancorp sold certain TRA cash flows it expected to receive from 2017 to 2030, totaling an estimated \$140 million. Approximately half of the sold TRA cash flows related to 2025 and later. This sale did not impact the TRA payment recognized during the fourth quarter of 2015.

During the third quarter of 2016, the Bancorp entered into an agreement with Vantiv, Inc. under which a portion of its TRA with

Vantiv, Inc. was terminated and settled in full for consideration of a cash payment in the amount of \$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 gain of \$116 million in other noninterest income from this settlement. 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 gain of \$164 million in other noninterest income associated with these options. This agreement did not impact the TRA payments recognized in the fourth quarter of 2016 and is not expected to impact the TRA payment expected in the fourth quarter of 2017.

In addition to the impact of the TRA terminations discussed above, the Bancorp recognized \$33 million, \$31 million and \$23 million in noninterest income in the Consolidated Statements of Income associated with the TRA during the years ended December 31, 2016, 2015 and 2014, respectively.

The following table provides the estimated cash flows to be received as of December 31, 2016 associated with the TRA for the years ending December 31, 2017 and thereafter:

(\$ in millions)	Cash Flows to be Received From Put/Call Option Exercises (Fixed Amounts) <sup>(b)</sup>	Estimated Cash Flows to be Received not Subject to Put/Call Option <sup>(a)</sup>
2017	\$ 63	33
2018	108	42
2019	-	8
2020	-	8
2021	-	8
2022	-	8
2023	-	9
2024	-	9
2025	-	9
2026	-	10
Thereafter	-	102
<b>Total</b>	<b>\$ 171</b>	<b>246</b>

(a) The 2017 cash flow of \$33 has been agreed upon with Vantiv, Inc. for settlement in January 2017 and was recognized as a gain in noninterest income during the fourth quarter of 2016. The remaining estimated cash flows in this column (which include TRA benefits associated with the net exercise of the warrant and the subsequent exchange of Vantiv Holding, LLC units in the fourth quarter of 2016) will be recognized in future periods when the related uncertainties are resolved.

(b) As part of the agreement the Bancorp entered into with Vantiv, Inc. on July 27, 2016, Vantiv, Inc. may be obligated to pay a total of approximately \$171 to the Bancorp to terminate certain remaining TRA cash flows, totaling an estimated \$394, upon the exercise of certain call options by Vantiv, Inc. or certain put options by the Bancorp.

The Bancorp and Vantiv Holding, LLC have various agreements in place covering services relating to the operations of Vantiv Holding, LLC. The services provided by the Bancorp to Vantiv Holding, LLC were initially required to support Vantiv Holding, LLC as a standalone entity during the deconversion period. The majority of services previously provided by the Bancorp to support Vantiv Holding, LLC as a standalone entity are no longer necessary and are now limited to certain general business resources. Vantiv Holding, LLC paid the Bancorp \$1 million for these services for each of the years ended December 31, 2016, 2015 and 2014. Other services provided to Vantiv Holding, LLC by the Bancorp, have continued beyond the deconversion period, include interchange clearing, settlement and sponsorship. Vantiv Holding, LLC paid the Bancorp \$58 million, \$47 million and \$44 million for these services for the years ended December 31, 2016, 2015 and 2014, respectively. In addition to the previously mentioned services, the Bancorp previously entered into an agreement under which Vantiv Holding,

LLC will provide processing services to the Bancorp. The total amount of fees relating to the processing services provided to the Bancorp by Vantiv Holding, LLC totaled \$76 million, \$89 million and \$83 million for the years ended December 31, 2016, 2015 and 2014, respectively. These fees are reported as a component of card and processing expense in the Consolidated Statements of Income.

As part of the initial sale, Vantiv Holding, LLC assumed loans totaling \$1.25 billion owed to the Bancorp, which were refinanced in 2010 into a larger syndicated loan structure that included the Bancorp. The outstanding carrying value of loans to Vantiv Holding, LLC was \$210 million and \$191 million at December 31, 2016 and 2015, respectively. Interest income relating to the loans was \$4 million, \$4 million and \$5 million, respectively, for the years ended December 31, 2016, 2015 and 2014 and is included in interest and fees on loans and leases in the Consolidated Statements of Income. Vantiv Holding, LLC's unused line of credit was \$59 million and \$46 million as of December 31, 2016 and 2015,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

respectively.

### *SLK Global*

As of December 31, 2016, the Bancorp owns 100% of Fifth Third Mauritius Holdings Limited, which owns 49% of SLK Global, and accounts for this investment under the equity method of accounting. The Bancorp's investment in SLK Global was \$6 million at both December 31, 2016 and 2015. The Bancorp recognized \$3 million in other noninterest income in the Consolidated Statements of Income as part of its equity method investment in SLK Global for each of the years ended December 31, 2016, 2015, and 2014 and received an immaterial amount of cash distributions during the years ended December 31, 2016, 2015 and 2014. The Bancorp paid SLK Global \$20 million, \$17 million and

\$13 million for their process and software services during the years ended December 31, 2016, 2015 and 2014, respectively.

### *CDC Investments*

The Bancorp's subsidiary, CDC, has equity investments in entities in which the Bancorp had \$76 million and \$5 million of loans outstanding at December 31, 2016 and 2015, respectively, and unfunded commitment balances of \$18 million and \$88 million at December 31, 2016 and 2015, respectively. The Bancorp held \$28 million and \$23 million of deposits for these entities at December 31, 2016 and 2015, respectively. For further information on CDC investments, refer to Note 11.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**20. INCOME TAXES**

The Bancorp and its subsidiaries file a consolidated federal income tax return. The following is a summary of applicable income taxes included in the Consolidated Statements of Income for the years ended December 31:

(\$ in millions)	2016	2015	2014
Current income tax expense:			
U.S. Federal income taxes	\$ 598	662	424
State and local income taxes	55	55	34
Foreign income taxes	-	13	8
Total current income tax expense	653	730	466
Deferred income tax (benefit) expense:			
U.S. Federal income taxes	(133)	(78)	71
State and local income taxes	(14)	6	9
Foreign income taxes	(1)	1	(1)
Total deferred income tax (benefit) expense	(148)	(71)	79
Applicable income tax expense	\$ 505	659	545

The following is a reconciliation between the statutory U.S. Federal income tax rate and the Bancorp's effective tax rate for the years ended December 31:

	2016	2015	2014
Statutory tax rate	35.0 %	35.0	35.0
Increase (decrease) resulting from:			
State taxes, net of federal benefit	1.3	1.7	1.4
Tax-exempt income	(2.7)	(1.7)	(1.4)
Low-income housing tax credits	(7.9)	(6.6)	(7.0)
Other tax credits	(0.9)	(0.9)	(1.1)
Other, net	(0.4)	0.3	-
Effective tax rate	24.4 %	27.8	26.9

Other tax credits in the rate reconciliation table include New Markets, Rehabilitation Investment and Qualified Zone Academy Bond tax credits. Tax-exempt income in the rate reconciliation table includes interest on municipal bonds, interest on tax-exempt

lending, income on life insurance policies held by the Bancorp, and certain gains on sales of leases that are exempt from federal taxation.

The following table provides a reconciliation of the beginning and ending amounts of the Bancorp's unrecognized tax benefits:

(\$ in millions)	2016	2015	2014
Unrecognized tax benefits at January 1	\$ 13	11	7
Gross increases for tax positions taken during prior period	9	1	2
Gross decreases for tax positions taken during prior period	-	-	-
Gross increases for tax positions taken during current period	2	2	2
Settlements with taxing authorities	-	-	-
Lapse of applicable statute of limitations	-	(1)	-
Unrecognized tax benefits at December 31 <sup>(a)</sup>	\$ 24	13	11

(a) Amounts represent unrecognized tax benefits that, if recognized, would affect the annual effective tax rate.

The Bancorp's unrecognized tax benefits as of December 31, 2016, 2015, and 2014 primarily relate to state income tax exposures from taking tax positions where the Bancorp believes it is likely that, upon examination, a state will take a position contrary to the position taken by the Bancorp.

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 twelve months, the Bancorp believes it is unlikely that its unrecognized tax benefits will change by a material amount during the next twelve months.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Deferred income taxes are comprised of the following items at December 31:

(\$ in millions)	2016	2015
Deferred tax assets:		
Allowance for loan and lease losses	\$ 439	445
Deferred compensation	122	118
Reserves	57	61
Reserve for unfunded commitments	56	48
State net operating loss carryforwards	9	10
Other	223	194
<b>Total deferred tax assets</b>	<b>\$ 906</b>	<b>876</b>
Deferred tax liabilities:		
Lease financing	\$ 940	935
Investments in joint ventures and partnership interests	219	248
MSRs and related economic hedges	202	245
State deferred taxes	64	79
Bank premises and equipment	61	53
Other comprehensive income	34	106
Other	173	218
<b>Total deferred tax liabilities</b>	<b>\$ 1,693</b>	<b>1,884</b>
<b>Total net deferred tax liability</b>	<b>\$ (787)</b>	<b>(1,008)</b>

At December 31, 2016 and 2015, the Bancorp recorded deferred tax assets of \$9 million and \$10 million, respectively, related to state net operating loss carryforwards. The deferred tax assets relating to state net operating losses (primarily resulting from leasing operations) are presented net of specific valuation allowances of \$25 million and \$22 million at December 31, 2016 and 2015, respectively. If these carryforwards are not utilized, they will expire in varying amounts through 2035. At December 31, 2016 and 2015, the Bancorp recorded a deferred tax asset of \$3 million and \$5 million, respectively related to a foreign tax credit carryforward. If not utilized, the majority of the deferred tax asset relating to the foreign tax credit carryforward will expire in 2025.

The Bancorp has determined that a valuation allowance is not needed against the remaining deferred tax assets as of December 31, 2016 or 2015. The Bancorp considered all of the positive and negative evidence available to determine whether it is more likely than not that the deferred tax assets will ultimately be realized and, based upon that evidence, the Bancorp believes it is more likely than not that the deferred tax assets recorded at December 31, 2016 and 2015 will ultimately be realized. The Bancorp reached this conclusion as the Bancorp has taxable income in the carryback period and it is expected that the Bancorp's remaining deferred tax assets will be realized through the reversal of its existing taxable temporary differences and its projected future taxable income.

The IRS is currently examining the Bancorp's 2012 and 2013 federal income tax returns. The statute of limitations for the Bancorp's federal income tax returns remains open for tax years 2012-2016. On occasion, as various state and local taxing jurisdictions examine the returns of the Bancorp and its subsidiaries, the Bancorp may agree to extend the statute of limitations for a reasonable period of time. Otherwise, the statutes of limitations for state income tax returns remain open only for tax years in accordance with each state's statutes.

Any interest and penalties incurred in connection with income taxes are recorded as a component of income tax expense in the Consolidated Financial Statements. During the year ended December 31, 2016, the Bancorp recognized \$1 million of interest

expense in connection with income taxes and an immaterial amount of interest expense/benefit for the years ended December 31, 2015 and 2014. At December 31, 2016 and 2015, the Bancorp had accrued interest liabilities, net of the related tax benefits, of \$1 million. No material liabilities were recorded for penalties related to income taxes.

Retained earnings at December 31, 2016 and 2015 included \$157 million in allocations of earnings for bad debt deductions of former thrift subsidiaries for which no income tax has been provided. Under current tax law, if certain of the Bancorp's subsidiaries use these bad debt reserves for purposes other than to absorb bad debt losses, they will be subject to federal income tax at the current corporate tax rate.

During 2016, the Bancorp adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, effective as of January 1, 2016. Consistent with existing U.S. GAAP and ASU 2016-09, the Bancorp establishes a deferred tax asset and recognizes a corresponding deferred tax benefit for stock-based awards granted to its employees and directors based on enacted tax rates and the expense recorded for financial reporting purposes. The actual tax deduction for these stock-based awards is determined when the stock-based awards are settled or expired and the tax deductions will typically be greater than or less than the expense previously recognized for financial reporting.

Among other requirements, ASU 2016-09 requires that the tax consequences for the difference between the expense recognized for financial reporting and the Bancorp's actual tax deduction for the stock-based awards be recognized through income tax expense in the interim periods in which they occur. Prior to the adoption of ASU 2016-09, the tax consequences for the difference between the expense recognized for financial reporting and the actual tax deduction for stock-based awards was recognized either through additional paid-in-capital when the Bancorp accumulated "excess tax benefits" from stock based awards or through income tax expense when the Bancorp depleted its accumulated "excess tax benefits" from stock-based awards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**21. RETIREMENT AND BENEFIT PLANS**

The Bancorp's qualified defined benefit plan's benefits were frozen in 1998, except for grandfathered employees. The Bancorp's other retirement plans consist of non-qualified, defined benefit plans, which are frozen and funded on an as needed basis. A majority of these plans were obtained in acquisitions from prior years and are included with the qualified defined benefit plan in the following tables ("the Plan"). The Bancorp recognizes the overfunded and

underfunded status of the Plan as an asset and liability, respectively, in the Consolidated Balance Sheets. The Plan had an underfunded projected benefit obligation at both December 31, 2016 and 2015. The underfunded amounts recognized in other liabilities in the Consolidated Balance Sheets were \$34 million and \$54 million at December 31, 2016 and 2015, respectively.

The following table summarizes the Plan as of and for the years ended December 31:

(\$ in millions)		2016	2015
Fair value of plan assets at January 1	\$	166	195
Actual return on assets		11	(6)
Contributions		20	4
Settlement		(15)	(17)
Benefits paid		(10)	(10)
Fair value of plan assets at December 31	\$	172	166
Projected benefit obligation at January 1	\$	220	247
Interest cost		9	9
Settlement		(15)	(17)
Actuarial (gain) loss		2	(9)
Benefits paid		(10)	(10)
Projected benefit obligation at December 31	\$	206	220
Underfunded projected benefit obligation at December 31	\$	(34)	(54)
Accumulated benefit obligation at December 31 <sup>(a)</sup>	\$	206	220

(a) Since the Plan's benefits are frozen, the rate of compensation increase is no longer an assumption used to calculate the accumulated benefit obligation. Therefore, the accumulated benefit obligation was the same as the projected benefit obligation at both **December 31, 2016** and 2015.

The estimated net actuarial loss for the Plan that will be amortized from AOCI into net periodic benefit cost during 2017 is \$7 million. The estimated net prior service cost for the Plan that will be

amortized from AOCI into net periodic benefit cost during 2017 is immaterial to the Consolidated Financial Statements.

The following table summarizes net periodic benefit cost and other changes in the Plan's assets and benefit obligations recognized in OCI for the years ended December 31:

(\$ in millions)		2016	2015	2014
Components of net periodic benefit cost:				
Interest cost	\$	9	9	10
Expected return on assets		(11)	(13)	(14)
Amortization of net actuarial loss		11	10	7
Settlement		7	7	5
Net periodic benefit cost	\$	16	13	8
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net actuarial loss	\$	2	9	37
Amortization of net actuarial loss		(11)	(10)	(7)
Settlement		(7)	(7)	(5)
Total recognized in other comprehensive income		(16)	(8)	25
Total recognized in net periodic benefit cost and other comprehensive income	\$	-	5	33

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**Fair Value Measurements of Plan Assets**

The following tables summarize plan assets measured at fair value on a recurring basis as of December 31:

2016 (\$ in millions)	Fair Value Measurements Using <sup>(a)</sup>			Total Fair Value
	Level 1	Level 2	Level 3	
Equity securities <sup>(b)</sup>	\$ 56	-	-	56
Mutual and exchange-traded funds:				
Money market funds	6	-	-	6
International funds	-	31	-	31
Domestic funds	-	39	-	39
Debt funds	-	5	-	5
Alternative strategies	1	9	-	10
Commodity funds	6	-	-	6
Total mutual and exchange-traded funds	\$ 13	84	-	97
Debt securities:				
U.S. Treasury and federal agencies securities	7	1	-	8
Mortgage-backed securities:				
Agency residential mortgage-backed securities	-	1	-	1
Agency commercial mortgage-backed securities	-	2	-	2
Asset-backed securities and other debt securities <sup>(c)</sup>	-	8	-	8
Total debt securities	\$ 7	12	-	19
Total plan assets	\$ 76	96	-	172

(a) For further information on fair value hierarchy levels, refer to Note 1.

(b) Includes holdings in Bancorp common stock.

(c) Includes corporate bonds.

2015 (\$ in millions)	Fair Value Measurements Using <sup>(a)</sup>			Total Fair Value
	Level 1	Level 2	Level 3	
Equity securities <sup>(b)</sup>	\$ 52	-	-	52
Mutual and exchange-traded funds:				
Money market funds	15	-	-	15
International funds	-	35	-	35
Domestic funds	-	31	-	31
Debt funds	-	3	-	3
Alternative strategies	-	11	-	11
Commodity funds	6	-	-	6
Total mutual and exchange-traded funds	\$ 21	80	-	101
Debt securities:				
U.S. Treasury and federal agencies securities	2	2	-	4
Mortgage-backed securities:				
Agency residential mortgage-backed securities	-	3	-	3
Agency commercial mortgage-backed securities	-	2	-	2
Non-agency commercial mortgage-backed securities	-	1	-	1
Asset-backed securities and other debt securities <sup>(c)</sup>	-	3	-	3
Total debt securities	\$ 2	11	-	13
Total plan assets	\$ 75	91	-	166

(a) For further information on fair value hierarchy levels, refer to Note 1.

(b) Includes holdings in Bancorp common stock.

(c) Includes corporate bonds.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Equity securities*

The Plan measures common stock using quoted prices which are available in an active market and classifies these investments within Level 1 of the valuation hierarchy.

*Mutual and exchange-traded funds*

All of the Plan's mutual and exchange-traded funds are publicly traded. The Plan measures the value of these investments using the fund's quoted prices which are available in an active market and classifies these investments within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, alternative

strategies and commodity funds. Where quoted prices are not available, the Plan measures the fair value of these investments based on the redemption price of units held, which is based on the current fair value of the fund's underlying assets. Unit values are determined by dividing the fund's net assets at fair value by its units outstanding at the valuation dates to obtain the investment's net asset value. Therefore, investments such as international funds, domestic funds, debt funds and alternative strategies are classified within Level 2 of the valuation hierarchy.

*Debt 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. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or DCFs. Examples

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of such instruments, which are classified within Level 2 of the valuation hierarchy, include federal agencies securities, agency residential mortgage-backed securities, agency commercial mortgage-backed securities, non-agency commercial mortgage-backed securities and asset-backed securities and other debt securities.

### **Plan Assumptions**

The Plan's assumptions are evaluated annually and are updated as necessary. The discount rate assumption reflects the yield on a

portfolio of high quality fixed-income instruments that have a similar duration to the Plan's liabilities. The expected long-term rate of return assumption reflects the average return expected on the assets invested to provide for the Plan's liabilities. In determining the expected long-term rate of return, the Bancorp evaluated actuarial and economic inputs, including long-term inflation rate assumptions and broad equity and bond indices long-term return projections, as well as actual long-term historical plan performance.

The following table summarizes the weighted-average plan assumptions for the years ended December 31:

	2016	2015	2014
For measuring benefit obligations at year end:			
Discount rate	3.97 %	4.16	3.82
Rate of compensation increase <sup>(a)</sup>	N/A	N/A	N/A
Expected return on plan assets	7.00	7.00	7.25
For measuring net periodic benefit cost:			
Discount rate	4.16	3.82	4.72
Rate of compensation increase <sup>(a)</sup>	N/A	N/A	N/A
Expected return on plan assets	7.00	7.00	7.25

(a) Since the Plan's benefits were frozen, except for grandfathered employees, the rate of compensation increase is no longer applicable beginning in 2014 since minimal grandfathered employees are still accruing benefits.

Lowering both the expected rate of return on the plan assets and the discount rate by 0.25% would have increased the 2016 pension expense by approximately \$1 million.

Based on the actuarial assumptions, the Bancorp expects to contribute \$3 million to the Plan in 2017. Estimated pension benefit payments are \$18 million in 2017, \$17 million in 2018, \$16 million in 2019, \$16 million in 2020 and \$16 million in 2021. The total estimated payments for the years 2022 through 2026 is \$77 million.

### **Investment Policies and Strategies**

The Bancorp's policy for the investment of plan assets is to employ investment strategies that achieve a range of weighted-average target asset allocations relating to equity securities (including the Bancorp's common stock), fixed-income securities (including U.S. Treasury and federal agencies securities, mortgage-backed securities, asset-backed securities and corporate bonds), alternative strategies (including traditional mutual funds, precious metals and commodities) and cash.

The following table provides the Bancorp's targeted and actual weighted-average asset allocations by asset category for the years ended December 31:

	Targeted Range <sup>(b)</sup>	2016	2015
Equity securities		73 %	69
Bancorp common stock		2	2
Total equity securities <sup>(a)</sup>	60-90 %	75	71
Fixed-income securities	5-25	14	16
Alternative strategies	3-11	6	7
Cash	0-13	5	6
Total		100 %	100

(a) Includes mutual and exchange-traded funds.

(b) These reflect the targeted ranges for both the years ended **December 31, 2016** and 2015.

The risk tolerance for the Plan is determined by management to be "moderate to aggressive", recognizing that higher returns involve some volatility and that periodic declines in the portfolio's value are tolerated in an effort to achieve real capital growth. There were no significant concentrations of risk associated with the investments of the Plan at December 31, 2016 and 2015.

Permitted asset classes of the Plan include cash and cash equivalents, fixed-income (domestic and non-U.S. bonds), equities (U.S., non-U.S., emerging markets and REITS), equipment leasing, precious metals, commodity transactions and mortgages. The Plan utilizes derivative instruments including puts, calls, straddles or other option strategies, as approved by management. Per ERISA, the Bancorp's common stock cannot exceed 10% of the fair value of plan assets.

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Fifth Third Bank, as Trustee, is expected to manage plan assets in a manner consistent with the plan agreement and other regulatory, federal and state laws. As of December 31, 2016 and 2015, \$172 million and \$166 million, respectively, of plan assets were managed by Fifth Third Bank. The Fifth Third Bank Pension, 401(k) and Medical Plan Committee (the "Committee") is the plan administrator. The Trustee is required to provide to the Committee monthly and quarterly reports covering a list of plan assets, portfolio performance, transactions and asset allocation. The Trustee is also required to keep the Committee apprised of any material changes in the Trustee's outlook and recommended investment policy. There were no fees paid by the Plan for investment management, accounting or administrative services provided by the Trustee. As of December 31, 2016 and 2015, Plan assets included \$5 million and \$4 million, respectively, of Bancorp common stock, which is below the 10% ERISA threshold previously discussed. Plan assets are not expected to be returned to the Bancorp during 2017.

### ***Other Information on Retirement and Benefit Plans***

The Bancorp has a qualified defined contribution savings plan that allows participants to make voluntary 401(k) contributions on a pre-tax or Roth basis, subject to statutory limitations. The Bancorp amended and restated the qualified defined contribution savings plan in its entirety, effective as of January 1, 2015. Beginning with the 2015 plan year, the Bancorp provides a higher company 401(k) match contribution. Expenses recognized for matching contributions to the Bancorp's qualified defined contribution savings plan were \$75 million, \$71 million and \$44 million for the years ended December 31, 2016, 2015 and 2014, respectively. The Bancorp did not make profit sharing contributions during the years ended December 31, 2016 and 2015. The Bancorp's profit sharing plan expense was \$19 million for the year ended December 31, 2014. In addition, the Bancorp has a non-qualified defined contribution plan that allows certain employees to make voluntary contributions into a deferred compensation plan. Expenses recognized by the Bancorp for its non-qualified defined contribution plan were \$3 million for both of the years ended December 31, 2016 and 2015 and \$2 million for the year ended December 31, 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**22. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The tables below presents the activity of the components of OCI and AOCI for the years ended December 31:

(\$ in millions)	Total Other Comprehensive Income			Total Accumulated Other Comprehensive Income		
	Pre-tax Activity	Tax Effect	Net Activity	Beginning Balance	Net Activity	Ending Balance
<b>2016</b>						
Unrealized holding losses on available-for-sale securities arising during the year	\$ (196)	66	(130)			
Reclassification adjustment for net gains on available-for-sale securities included in net income	(11)	4	(7)			
Net unrealized gains on available-for-sale securities	(207)	70	(137)	238	(137)	101
Unrealized holding gains on cash flow hedge derivatives arising during the year	30	(11)	19			
Reclassification adjustment for net gains on cash flow hedge derivatives included in net income	(48)	17	(31)			
Net unrealized gains on cash flow hedge derivatives	(18)	6	(12)	22	(12)	10
Net actuarial loss arising during the year	(2)	1	(1)			
Reclassification of amounts to net periodic benefit costs	18	(6)	12			
Defined benefit pension plans, net	16	(5)	11	(63)	11	(52)
Total	\$ (209)	71	(138)	197	(138)	59

(\$ in millions)	Total Other Comprehensive Income			Total Accumulated Other Comprehensive Income		
	Pre-tax Activity	Tax Effect	Net Activity	Beginning Balance	Net Activity	Ending Balance
<b>2015</b>						
Unrealized holding losses on available-for-sale securities arising during the year	\$ (349)	122	(227)			
Reclassification adjustment for net gains on available-for-sale securities included in net income	(16)	6	(10)			
Net unrealized gains on available-for-sale securities	(365)	128	(237)	475	(237)	238
Unrealized holding gains on cash flow hedge derivatives arising during the year	74	(26)	48			
Reclassification adjustment for net gains on cash flow hedge derivatives included in net income	(75)	26	(49)			
Net unrealized gains on cash flow hedge derivatives	(1)	-	(1)	23	(1)	22
Net actuarial loss arising during the year	(9)	4	(5)			
Reclassification of amounts to net periodic benefit costs	17	(6)	11			
Defined benefit pension plans, net	8	(2)	6	(69)	6	(63)
Total	\$ (358)	126	(232)	429	(232)	197

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(\$ in millions)	Total Other Comprehensive Income			Total Accumulated Other Comprehensive Income		
	Pre-tax Activity	Tax Effect	Net Activity	Beginning Balance	Net Activity	Ending Balance
2014						
Unrealized holding gains on available-for-sale securities arising during the year	\$ 580	(202)	378			
Reclassification adjustment for net gains on available-for-sale securities included in net income	(37)	13	(24)			
Net unrealized gains on available-for-sale securities	543	(189)	354	121	354	475
Unrealized holding gains on cash flow hedge derivatives arising during the year	60	(21)	39			
Reclassification adjustment for net gains on cash flow hedge derivatives included in net income	(44)	15	(29)			
Net unrealized gains on cash flow hedge derivatives	16	(6)	10	13	10	23
Net actuarial loss arising during the year	(37)	12	(25)			
Reclassification of amounts to net periodic benefit costs	12	(4)	8			
Defined benefit pension plans, net	(25)	8	(17)	(52)	(17)	(69)
Total	\$ 534	(187)	347	82	347	429

The table below presents reclassifications out of AOCI for the years ended December 31:

Components of AOCI: (\$ in millions)	Consolidated Statements of Income Caption	2016	2015	2014
Net unrealized gains on available-for-sale securities: <sup>(b)</sup>				
Net gains included in net income	Securities gains, net	\$ 11	16	37
	Income before income taxes	11	16	37
	Applicable income tax expense	(4)	(6)	(13)
	Net income	7	10	24
Net unrealized gains on cash flow hedge derivatives: <sup>(b)</sup>				
Interest rate contracts related to C&I loans	Interest and fees on loans and leases	48	75	44
	Income before income taxes	48	75	44
	Applicable income tax expense	(17)	(26)	(15)
	Net income	31	49	29
Net periodic benefit costs: <sup>(b)</sup>				
Amortization of net actuarial loss	Employee benefits expense <sup>(a)</sup>	(11)	(10)	(7)
Settlements	Employee benefits expense <sup>(a)</sup>	(7)	(7)	(5)
	Income before income taxes	(18)	(17)	(12)
	Applicable income tax expense	6	6	4
	Net income	(12)	(11)	(8)
Total reclassifications for the period	Net income	\$ 26	48	45

(a) This AOCI component is included in the computation of net periodic benefit cost. Refer to Note 21 for information on the computation of net periodic benefit cost.

(b) Amounts in parentheses indicate reductions to net income.



**23. COMMON, PREFERRED AND TREASURY STOCK**

The table presents a summary of the share activity within common, preferred and treasury stock for the years ended:

(\$ in millions, except share data)	Common Stock		Preferred Stock		Treasury Stock	
	Value	Shares	Value	Shares	Value	Shares
December 31, 2013	\$ 2,051	923,892,581	\$ 1,034	42,000	\$ (1,295)	68,586,836
Shares acquired for treasury	-	-	-	-	(726)	34,799,873
Issuance of preferred shares, Series J	-	-	297	12,000	-	-
Impact of stock transactions under stock compensation plans, net	-	-	-	-	47	(3,493,671)
Other	-	-	-	-	2	(47,409)
December 31, 2014	\$ 2,051	923,892,581	\$ 1,331	54,000	\$ (1,972)	99,845,629
Shares acquired for treasury	-	-	-	-	(847)	42,607,855
Impact of stock transactions under stock compensation plans, net	-	-	-	-	52	(3,593,406)
Other	-	-	-	-	3	(47,811)
December 31, 2015	\$ 2,051	923,892,581	\$ 1,331	54,000	\$ (2,764)	138,812,267
Shares acquired for treasury	-	-	-	-	(668)	34,633,221
Impact of stock transactions under stock compensation plans, net	-	-	-	-	(4)	42,357
Other	-	-	-	-	3	(74,563)
December 31, 2016	\$ 2,051	923,892,581	\$ 1,331	54,000	\$ (3,433)	173,413,282

**Preferred Stock—Series J**

On June 5, 2014, the Bancorp issued, in a registered public offering, 300,000 depository shares, representing 12,000 shares of 4.90% fixed to floating-rate non-cumulative Series J perpetual preferred stock, for net proceeds of \$297 million. Each preferred share has a \$25,000 liquidation preference. The preferred stock accrues dividends, on a non-cumulative semi-annual basis, at an annual rate of 4.90% through but excluding September 30, 2019, at which time it converts to a quarterly floating-rate dividend of three-month LIBOR plus 3.129%. Subject to any required regulatory approval, the Bancorp may redeem the Series J preferred shares at its option, in whole or in part, at any time on or after September 30, 2019, or any time prior following a regulatory capital event. The Series J preferred shares are not convertible into Bancorp common shares or any other securities.

**Preferred Stock—Series I**

On December 9, 2013, the Bancorp issued, in a registered public offering, 18,000,000 depository shares, representing 18,000 shares of 6.625% fixed to floating-rate non-cumulative Series I perpetual preferred stock, for net proceeds of \$441 million. Each preferred share has a \$25,000 liquidation preference. The preferred stock accrues dividends, on a non-cumulative quarterly basis, at an annual rate of 6.625% through but excluding December 31, 2023, at which time it converts to a quarterly floating-rate dividend of three-month LIBOR plus 3.71%. Subject to any required regulatory approval, the Bancorp may redeem the Series I preferred shares at its option in whole or in part, at any time on or after December 31, 2023 and may redeem in whole but not in part, following a regulatory capital event at any time prior to December 31, 2023. The Series I preferred shares are not convertible into Bancorp common shares or any other securities.

**Preferred Stock—Series H**

On May 16, 2013, the Bancorp issued, in a registered public offering, 600,000 depository shares, representing 24,000 shares of 5.10% fixed to floating-rate non-cumulative Series H perpetual preferred stock, for net proceeds of \$593 million. Each preferred share has a \$25,000 liquidation preference. The preferred stock accrues dividends, on a non-cumulative semi-annual basis, at an annual rate of 5.10% through but excluding June 30, 2023, at which time it converts to a quarterly floating-rate dividend of three-month LIBOR plus 3.033%. Subject to any required regulatory approval, the Bancorp may redeem the Series H preferred shares at its option in whole or in part, at any time on or after June 30, 2023 and may

redeem in whole but not in part, following a regulatory capital event at any time prior to June 30, 2023. The Series H preferred shares are not convertible into Bancorp common shares or any other securities.

**Treasury Stock**

On March 15, 2016, the Board of Directors authorized the Bancorp to repurchase up to 100 million common shares in the open market or in privately negotiated transactions and to utilize any derivative or similar instrument to effect share repurchase transactions. This share repurchase authorization replaced the Board's previous authorization from March of 2014.

On March 26, 2014, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2014 CCAR. The FRB indicated to the Bancorp that it did not object to the potential repurchase of \$669 million of common shares with the additional ability to repurchase common shares in an amount equal to any after-tax gains realized by the Bancorp from the sale of Vantiv, Inc. common stock for the period beginning April 1, 2014 and ending March 31, 2015.

On March 11, 2015, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2015 CCAR. The FRB indicated to the Bancorp that it did not object to the potential repurchase of \$765 million of common shares with the additional ability to repurchase common shares in an amount equal to any after-tax gains realized by the Bancorp from the sale of Vantiv, Inc. common stock for the period beginning April 1, 2015 and ending June 30, 2016.

On June 29, 2016, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2016 CCAR. The FRB indicated to the Bancorp that it did not object to the potential repurchase of \$660 million of common shares with the additional ability to repurchase common shares in an amount equal to any after-tax gains realized by the Bancorp from the sale of Vantiv, Inc. common stock or from the termination and settlement of any portion of the TRA with Vantiv Inc., if executed, for the period beginning July 1, 2016 and ending June 30, 2017.

The Bancorp entered into a number of accelerated share repurchase transactions during the years ended December 31, 2015 and 2016. 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

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repurchase 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 years ended December 31, 2015 and 2016:

Repurchase Date	Amount (\$ in millions)	Shares Repurchased on Repurchase Date	Shares Received from Forward Contract Settlement	Total Shares Repurchased	Settlement Date
October 23, 2014	180	8,337,875	794,245	9,132,120	January 8, 2015
January 27, 2015	180	8,542,713	1,103,744	9,646,457	April 28, 2015
April 30, 2015	155	6,704,835	842,655	7,547,490	July 31, 2015
August 3, 2015	150	6,039,792	1,346,314	7,386,106	September 3, 2015
September 9, 2015	150	6,538,462	1,446,613	7,985,075	October 23, 2015
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
December 20, 2016	155	4,843,750	1,044,362	5,888,112	February 6, 2017

### **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.

## **24. STOCK-BASED COMPENSATION**

The Bancorp has historically emphasized employee stock ownership. The following table provides detail of the number of shares to be issued upon exercise of outstanding stock-based awards and remaining shares available for future issuance under all of the

Bancorp's equity compensation plans approved by shareholders as of December 31, 2016:

Plan Category (shares in thousands)	Number of Shares to be Issued Upon Exercise	Weighted-Average Exercise Price Per Share	Shares Available for Future Issuance
Equity compensation plans			18,478 (a)(f)
SARs	(b)	N/A	(a)
RSAs	4,638	N/A	(a)
RSUs	5,086	N/A	(a)
Stock options <sup>(c)</sup>	7	\$32.26	(a)
PSAs	(d)	N/A	(a)
Employee stock purchase plan			6,129 (e)
<b>Total shares</b>	<b>9,731</b>		<b>24,607</b>

(a) Under the 2014 Incentive Compensation Plan, 36 million shares were authorized for issuance as SARs, RSAs, RSUs, stock options, performance share or unit awards, dividend or dividend equivalent rights and stock awards.

(b) The number of shares to be issued upon exercise will be determined at exercise based on the difference between the grant price and the market price on the date of exercise and the calculation of taxes owed on the exercise.

(c) Excludes 0.02 million outstanding options awarded under plans assumed by the Bancorp in connection with certain mergers and acquisitions. The Bancorp has not made any awards under these plans and will make no additional awards under these plans. The weighted-average exercise price of these outstanding options is \$14.05 per share.

(d) The number of shares to be issued is dependent upon the Bancorp achieving certain predefined performance targets and ranges from zero shares to approximately 2 million shares.

(e) Represents remaining shares of Fifth Third common stock under the Bancorp's 1993 Stock Purchase Plan, as amended and restated, including an additional 1.5 million shares approved by shareholders on March 28, 2007 and an additional 12 million shares approved by shareholders on April 21, 2009.

(f) Includes 4 million shares for Full Value Awards.

Stock-based awards are eligible for issuance under the Bancorp's Incentive Compensation Plan to executives, directors and key employees of the Bancorp and its subsidiaries. The Incentive Compensation Plan was approved by shareholders on April 15, 2014 and authorized the issuance of up to 36 million shares, including 16 million shares for Full Value Awards, as equity compensation and provides for SARs, RSAs, RSUs, stock options, performance share or unit awards, dividend or dividend equivalent rights and stock awards. Full Value Awards are defined as awards with no cash outlay for the employee to obtain the full value. Based on total stock-based awards outstanding (including SARs, RSAs, RSUs, stock options and PSAs) and shares remaining for future grants under the 2014 Incentive Compensation Plan, the potential dilution to which the Bancorp's shareholders of common stock are exposed due to the potential that stock-based compensation will be awarded to executives, directors or key employees of the Bancorp

and its subsidiaries is 9%. SARs, RSAs, RSUs, stock options and PSAs outstanding represent 7% of the Bancorp's issued shares at December 31, 2016.

All of the Bancorp's stock-based awards are to be settled with stock. The Bancorp has historically used treasury stock to settle stock-based awards, when available. SARs, issued at fair value based on the closing price of the Bancorp's common stock on the date of grant, have up to ten year terms and vest and become exercisable ratably over a four year period of continued employment. The Bancorp does not grant discounted SARs or stock options, re-price previously granted SARs or stock options or grant reload stock options. RSAs and RSUs are released after three or four years or ratably over three or four years of continued employment. RSAs include dividend and voting rights while RSUs receive dividend equivalents only. Stock options were previously issued at fair value based on the closing price of the Bancorp's common stock on the

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date of grant, had up to ten year terms and vested and became fully exercisable ratably over a three or four year period of continued employment. PSAs have three year cliff vesting terms with market conditions and/or performance conditions as defined by the plan. All of the Bancorp's executive stock-based awards contain an annual performance hurdle of 2% return on tangible common equity. If this threshold is not met, all PSAs that would vest in the next year are forfeited and all SARs and RSAs that would vest in the next year may also be forfeited at the discretion of the Human Capital and Compensation Committee of the Board of Directors. The Bancorp met this threshold as of December 31, 2016.

Stock-based compensation expense was \$111 million, \$100 million and \$83 million for the years ended December 31, 2016, 2015 and 2014, respectively, and is included in salaries, wages and incentives in the Consolidated Statements of Income. The total related income tax benefit recognized was \$39 million, \$36 million and \$30 million for the years ended December 31, 2016, 2015 and 2014, respectively.

### **Stock Appreciation Rights**

The Bancorp uses assumptions, which are evaluated and revised as necessary, in estimating the grant-date fair value of each SAR grant.

The weighted-average assumptions were as follows for the years ended December 31:

	2016	2015	2014
Expected life (in years)	6	6	6
Expected volatility	37%	35	35
Expected dividend yield	3.1	2.7	2.4
Risk-free interest rate	1.5	1.6	2.0

The expected life is generally derived from historical exercise patterns and represents the amount of time that SARs granted are expected to be outstanding. The expected volatility is based on a combination of historical and implied volatilities of the Bancorp's common stock. The expected dividend yield is based on annual dividends divided by the Bancorp's stock price. Annual dividends are based on projected dividends, estimated using an expected long-term dividend payout ratio, over the estimated life of the awards. The risk-free interest rate for periods within the contractual life of the SARs is based on the U.S. Treasury yield curve in effect at the time of grant.

Scholes option-pricing model. The weighted-average grant-date fair value of SARs granted was \$5.16, \$5.52 and \$6.53 per share for the years ended December 31, 2016, 2015 and 2014, respectively. The total grant-date fair value of SARs that vested during the years ended December 31, 2016, 2015 and 2014 was \$32 million, \$35 million and \$34 million, respectively.

At December 31, 2016, there was \$40 million of stock-based compensation expense related to outstanding SARs not yet recognized. The expense is expected to be recognized over an estimated remaining weighted-average period at December 31, 2016 of 2.4 years.

The grant-date fair value of SARs is measured using the Black-

	2016		2015		2014	
	Number of SARs	Weighted-Average Grant Price Per Share	Number of SARs	Weighted-Average Grant Price Per Share	Number of SARs	Weighted-Average Grant Price Per Share
SARs (in thousands, except per share data)						
Outstanding at January 1	44,129	\$ 19.14	45,590	\$ 19.79	48,599	\$ 19.98
Granted	6,379	17.68	5,219	18.99	4,526	21.63
Exercised	(6,291)	14.47	(3,242)	13.59	(4,408)	13.63
Forfeited or expired	(4,176)	32.02	(3,438)	32.96	(3,127)	34.19
Outstanding at December 31	40,041	\$ 18.30	44,129	\$ 19.14	45,590	\$ 19.79
Exercisable at December 31	26,898	\$ 18.28	29,721	\$ 19.71	27,950	\$ 21.71

The following table summarizes outstanding and exercisable SARs by grant price per share at December 31, 2016:

	Outstanding SARs			Exercisable SARs		
	Number of SARs	Weighted-Average Grant Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Number of SARs	Weighted-Average Grant Price Per Share	Weighted-Average Remaining Contractual Life (in years)
SARs (in thousands, except per share data)						
Under \$10.00	2,195	\$ 3.98	2.3	2,195	\$ 3.98	2.3
\$10.01-\$20.00	30,446	16.36	6.1	19,125	15.51	4.7
\$20.01-\$30.00	3,513	21.64	7.3	1,691	21.65	7.2
\$30.01-\$40.00	3,305	38.27	0.3	3,305	38.27	0.3
Over \$40.00	582	40.11	0.3	582	40.11	0.3
All SARs	40,041	\$ 18.30	5.4	26,898	\$ 18.28	4.0

### **Restricted Stock Awards**

The total grant-date fair value of RSAs that were released during the years ended December 31, 2016, 2015 and 2014 was \$55 million, \$43 million and \$32 million, respectively. At December 31, 2016, there was \$52 million of stock-based compensation expense related

to outstanding RSAs not yet recognized. The expense is expected to be recognized over an estimated remaining weighted-average period at December 31, 2016 of 2.0 years.

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	2016		2015		2014	
	Shares	Weighted-Average Grant-Date Fair Value Per Share	Shares	Weighted-Average Grant-Date Fair Value Per Share	Shares	Weighted-Average Grant-Date Fair Value Per Share
RSAs (in thousands, except per share data)						
Outstanding at January 1	8,281	\$ 18.88	7,253	\$ 17.98	6,710	\$ 15.11
Granted	3	20.65	4,250	19.11	3,264	21.61
Released	(3,090)	17.92	(2,580)	16.86	(2,183)	14.84
Forfeited	(556)	19.20	(642)	18.64	(538)	16.73
Outstanding at December 31	4,638	\$ 19.44	8,281	\$ 18.88	7,253	\$ 17.98

The following table summarizes outstanding RSAs by grant-date fair value at December 31, 2016:

RSAs (in thousands)	Outstanding RSAs	
	Shares	Weighted-Average Remaining Contractual Life (in years)
\$15.01-\$20.00	3,187	1.2
Over \$20.00	1,451	1.0
All RSAs	4,638	1.1

**Restricted Stock Units**

The total grant-date fair value of RSUs that were released during both the years ended December 31, 2016 and 2015 was \$2 million. At December 31, 2016, there was \$57 million of stock-based

compensation expense related to outstanding RSUs not yet recognized. The expense is expected to be recognized over an estimated remaining weighted-average period at December 31, 2016 of 2.9 years.

	2016		2015	
	Units	Weighted-Average Grant-Date Fair Value Per Unit	Units	Weighted-Average Grant-Date Fair Value Per Unit
RSUs (in thousands, except per unit data)				
Outstanding at January 1	371	\$ 19.56	-	\$ N/A
Granted	5,029	17.75	377	19.58
Released	(79)	19.76	(5)	21.63
Forfeited	(235)	17.89	(1)	19.46
Outstanding at December 31	5,086	\$ 17.84	371	\$ 19.56

The following table summarizes outstanding RSUs by grant-date fair value at December 31, 2016:

RSUs (in thousands)	Outstanding RSUs	
	Units	Weighted-Average Remaining Contractual Life (in years)
\$10.01-\$15.00	638	1.1
\$15.01-\$20.00	4,265	1.8
\$20.01-\$25.00	159	2.0
\$25.01-\$30.00	24	2.1
All RSUs	5,086	1.7

**Stock Options**

The grant-date fair value of stock options is measured using the Black-Scholes option-pricing model. There were no stock options granted during the years ended December 31, 2016, 2015 and 2014.

The total intrinsic value of stock options exercised was immaterial for the year ended December 31, 2016 and \$1 million for both the years ended December 31, 2015 and 2014. Cash received from stock options exercised was \$1 million, \$2 million and \$1 million for the years ended December 31, 2016, 2015 and 2014,

respectively. The tax benefit realized from exercised stock options was immaterial to the Bancorp's Consolidated Financial Statements during the years ended December 31, 2016, 2015 and 2014. All stock options were vested as of December 31, 2008, therefore, no stock options vested during the years ended December 31, 2016, 2015 or 2014. As of December 31, 2016, the aggregate intrinsic value of both outstanding stock options and exercisable stock options was immaterial.

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	2016		2015		2014	
	Number of Options	Weighted-Average Exercise Price Per Share	Number of Options	Weighted-Average Exercise Price Per Share	Number of Options	Weighted-Average Exercise Price Per Share
Stock Options (in thousands, except per share)						
Outstanding at January 1	119	\$ 14.97	265	\$ 14.25	546	\$ 20.72
Exercised	(94)	13.86	(126)	13.67	(115)	12.84
Forfeited or expired	-	-	(20)	13.59	(166)	36.42
Outstanding at December 31	25	\$ 19.17	119	\$ 14.97	265	\$ 14.25
Exercisable at December 31	25	\$ 19.17	119	\$ 14.97	265	\$ 14.25

The following table summarizes outstanding and exercisable stock options by exercise price per share at December 31, 2016:

Stock Options (in thousands, except per share data)	Number of Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)
\$10.01-\$20.00	18	14.05	0.1
\$20.01-\$30.00	1	24.41	1.0
\$30.01-\$40.00	-	-	-
Over \$40.00	5	40.98	-
All stock options	25	\$ 19.17	0.2

***Other Stock-Based Compensation***

PSAs are payable contingent upon the Bancorp achieving certain predefined performance targets over the three-year measurement period. Awards granted during the years ended December 31, 2016, 2015 and 2014 will be entirely settled in stock. The performance targets are based on the Bancorp's performance relative to a defined peer group. During both 2016 and 2015, PSAs used a performance-based metric based on return on tangible common equity in relation to peers, whereas during 2014, a market-based metric was used which assessed the stock price performance in relation to peers. During the years ended December 31, 2016, 2015 and 2014,

583,608, 458,355 and 322,567 PSAs, respectively, were granted by the Bancorp. These awards were granted at a weighted-average grant-date fair value of \$14.87, \$19.48 and \$15.61 per unit during the years ended December 31, 2016, 2015 and 2014, respectively.

The Bancorp sponsors an employee stock purchase plan that allows qualifying employees to purchase shares of the Bancorp's common stock with a 15% match. During the years ended December 31, 2016, 2015 and 2014, there were 684,885, 617,829 and 599,101 shares, respectively, purchased by participants and the Bancorp recognized stock-based compensation expense of \$1 million in each of the respective years.

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**25. OTHER NONINTEREST INCOME AND OTHER NONINTEREST EXPENSE**

The following table presents the major components of other noninterest income and other noninterest expense for the years ended December 31:

(\$ in millions)	2016	2015	2014
Other noninterest income:			
Income from the TRA associated with Vantiv, Inc.	\$ 313	80	23
Operating lease income	102	89	84
Equity method income from interest in Vantiv Holding, LLC	66	63	48
Valuation adjustments on the warrant associated with sale of Vantiv Holding, LLC	64	236	31
BOLI income	53	48	44
Cardholder fees	46	43	45
Consumer loan and lease fees	23	23	25
Banking center income	20	21	30
Gain on sale of certain retail branch operations	19	-	-
Private equity investment income	11	28	27
Insurance income	11	14	13
Net gains on loan sales	10	38	-
Gain on sale and exercise of the warrant associated with Vantiv Holding, LLC	9	89	-
Gain on sale of Vantiv, Inc. shares	-	331	125
Loss on swap associated with the sale of Visa, Inc. Class B Shares	(56)	(37)	(38)
Net losses on disposition and impairment of bank premises and equipment	(13)	(101)	(19)
Other, net	10	14	12
<b>Total other noninterest income</b>	<b>\$ 688</b>	<b>979</b>	<b>450</b>
Other noninterest expense:			
Impairment on affordable housing investments	\$ 168	145	135
FDIC insurance and other taxes	126	99	89
Loan and lease	110	118	119
Marketing	104	110	98
Operating lease	86	74	67
Losses and adjustments	73	55	188
Professional services fees	61	70	72
Data processing	51	45	41
Postal and courier	46	45	47
Travel	45	54	52
Recruitment and education	37	33	28
Provision for (benefit from) the reserve for unfunded commitments	23	4	(27)
Donations	23	29	18
Insurance	15	17	16
Supplies	14	16	15
Other, net	187	191	181
<b>Total other noninterest expense</b>	<b>\$ 1,169</b>	<b>1,105</b>	<b>1,139</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**26. EARNINGS PER SHARE**

The following table provides the calculation of earnings per share and the reconciliation of earnings per share and earnings per diluted share for the years ended December 31:

(\$ in millions, except per share data)	2016			2015			2014		
	Income	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount
<b>Earnings per Share:</b>									
Net income attributable to Bancorp	\$ 1,564			1,712			1,481		
Dividends on preferred stock	75			75			67		
Net income available to common shareholders	1,489			1,637			1,414		
Less: Income allocated to participating securities	15			15			12		
Net income allocated to common shareholders	\$ 1,474	757	1.95	1,622	799	2.03	1,402	833	1.68
<b>Earnings per Diluted Share:</b>									
Net income available to common shareholders	\$ 1,489			1,637			1,414		
Effect of dilutive securities:									
Stock-based awards	-	7		-	9		-	10	
Net income available to common shareholders plus assumed conversions	1,489			1,637			1,414		
Less: Income allocated to participating securities	15			15			12		
Net income allocated to common shareholders plus assumed conversions	\$ 1,474	764	1.93	1,622	808	2.01	1,402	843	1.66

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 the years ended December 31, 2016, 2015 and 2014 excludes 19 million, 16 million and 13 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 year ended December 31, 2016 excludes the impact of the forward contract related to the December 20, 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 fourth 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 December 31, 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 year ended December 31, 2015 excludes the impact of the forward contract related to the December 14, 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 fourth 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 December 31, 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.

The diluted earnings per share computation for the year ended December 31, 2014 excludes the impact of the forward contract related to the October 23, 2014 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 fourth quarter of 2014, the counterparty to the transaction would have been required to deliver additional shares for the settlement of the forward contract as of December 31, 2014, and thus the impact of the forward contract related to the accelerated share repurchase transaction would have been anti-dilutive to earnings per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**27. 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. For more information regarding the fair value hierarchy and how the Bancorp measures fair value, refer to Note 1.

**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:

December 31, 2016 (\$ in millions)	Fair Value Measurements Using			Total Fair Value
	Level 1 <sup>(a)</sup>	Level 2 <sup>(b)</sup>	Level 3	
<b>Assets:</b>				
Available-for-sale and other securities:				
U.S. Treasury and federal agencies securities	\$ 471	78	-	549
Obligations of states and political subdivisions securities	-	45	-	45
Mortgage-backed securities:				
Agency residential mortgage-backed securities	-	15,608	-	15,608
Agency commercial mortgage-backed securities	-	9,055	-	9,055
Non-agency commercial mortgage-backed securities	-	3,112	-	3,112
Asset-backed securities and other debt securities	-	2,116	-	2,116
Equity securities <sup>(a)</sup>	90	1	-	91
Available-for-sale and other securities <sup>(a)</sup>	561	30,015	-	30,576
Trading securities:				
U.S. Treasury and federal agencies securities	-	23	-	23
Obligations of states and political subdivisions securities	-	39	-	39
Mortgage-backed securities:				
Agency residential mortgage-backed securities	-	8	-	8
Asset-backed securities and other debt securities	-	15	-	15
Equity securities	325	-	-	325
Trading securities	325	85	-	410
Residential mortgage loans held for sale	-	686	-	686
Residential mortgage loans <sup>(b)</sup>	-	-	143	143
Derivative assets:				
Interest rate contracts	20	715	13	748
Foreign exchange contracts	-	202	-	202
Commodity contracts	22	85	-	107
Derivative assets <sup>(a)</sup>	42	1,002	13	1,057
<b>Total assets</b>	<b>\$ 928</b>	<b>31,788</b>	<b>156</b>	<b>32,872</b>
<b>Liabilities:</b>				
Derivative liabilities:				
Interest rate contracts	\$ 3	257	5	265
Foreign exchange contracts	-	204	-	204
Equity contracts	-	-	91	91
Commodity contracts	27	79	-	106
Derivative liabilities <sup>(a)</sup>	30	540	96	666
Short positions <sup>(c)</sup>	17	4	-	21
<b>Total liabilities</b>	<b>\$ 47</b>	<b>544</b>	<b>96</b>	<b>687</b>

(a) Excludes FHLB, FRB and DTCC restricted stock totaling \$248, \$358 and \$1, respectively, at December 31, 2016.

(b) Includes residential mortgage loans originated as held for sale and subsequently transferred to held for investment.

(c) During the year ended December 31, 2016, no assets or liabilities were transferred between Level 1 and Level 2.

(d) Included in other assets in the Consolidated Balance Sheets.

(e) Included in other liabilities in the Consolidated Balance Sheets.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 (\$ in millions)	Fair Value Measurements Using			Total Fair Value
	Level 1 <sup>(a)</sup>	Level 2 <sup>(b)</sup>	Level 3	
<b>Assets:</b>				
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 <sup>(a)</sup>	98	1	-	99
Available-for-sale and other securities <sup>(a)</sup>	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 <sup>(b)</sup>	-	-	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 <sup>(c)</sup>	57	1,518	277	1,852
<b>Total assets</b>	<b>\$ 588</b>	<b>30,332</b>	<b>444</b>	<b>31,364</b>
<b>Liabilities:</b>				
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 <sup>(d)</sup>	38	836	64	938
Short positions <sup>(e)</sup>	22	7	-	29
<b>Total liabilities</b>	<b>\$ 60</b>	<b>843</b>	<b>64</b>	<b>967</b>

(a) Excludes FHLB, FRB and DTCC 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 Consolidated Balance Sheets.

(e) Included in other liabilities in the 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *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. During the years ended December 31, 2016 and 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.

During the fourth quarter of 2016, the Bancorp exercised its right to purchase approximately 7.8 million Class C Units underlying the warrant at the \$15.98 strike price. This exercise was settled on a net basis for approximately 5.7 million Class C Units, which were then exchanged for approximately 5.7 million shares of Vantiv, Inc. Class A Common Stock of which 4.8 million shares were sold in a secondary offering and 0.9 million shares were repurchased by Vantiv, Inc. For further information on the warrant transaction, refer to Note 19.

Prior to the aforementioned warrant transaction, the fair value of the warrant was calculated in conjunction with a third party valuation provider by applying Black-Scholes option-pricing models

using probability weighted scenarios which contained 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 reviewed 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 December 31, 2016 was \$12 million. Immediate decreases in current interest rates of 25 bps and 50 bps would result in increases in fair value of the IRLCs of approximately \$6 million and \$11 million, respectively. Immediate increases of current interest rates of 25 bps and 50 bps would result in decreases in fair value of the IRLCs of approximately \$6 million and \$13 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 \$1 million and \$2 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 \$1 million and \$2 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables are a reconciliation of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

For the year ended December 31, 2016 (\$ in millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					Total Fair Value
	Trading Securities	Residential Mortgage Loans	Interest Rate Derivatives, Net <sup>(a)</sup>	Equity Derivatives, Net <sup>(a)</sup>		
Balance, beginning of period	\$ -	167	12	201		380
Total gains (losses) (realized/unrealized):						
Included in earnings	-	(2)	115	17		130
Purchases	-	-	(3)	-		(3)
Sale and exercise of warrant	-	-	-	(334)		(334)
Settlements	-	(40)	(116)	25		(131)
Transfers into Level 3 <sup>(b)</sup>	-	18	-	-		18
Balance, end of period	\$ -	143	8	(91)		60
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to instruments still held at December 31, 2016 <sup>(c)</sup>	\$ -	(2)	13	(56)		(45)

(a) Net interest rate derivatives include derivative assets and liabilities of \$13 and \$5, respectively, as of December 31, 2016. Net equity derivatives include derivative assets and liabilities of \$0 and \$91, respectively, as of December 31, 2016.

(b) Includes certain residential mortgage loans held for sale that were transferred to held for investment.

(c) Includes interest income and expense.

For the year ended December 31, 2015 (\$ in millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					Total Fair Value
	Trading Securities	Residential Mortgage Loans	Interest Rate Derivatives, Net <sup>(a)</sup>	Equity Derivatives, Net <sup>(a)</sup>		
Balance, beginning of period	\$ -	108	10	366		484
Total gains (realized/unrealized):						
Included in earnings	-	-	111	288		399
Purchases	-	-	(2)	-		(2)
Sale and exercise of warrant	-	-	-	(477)		(477)
Settlements	-	(28)	(107)	24		(111)
Transfers into Level 3 <sup>(b)</sup>	-	87	-	-		87
Balance, end of period	\$ -	167	12	201		380
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to instruments still held at December 31, 2015 <sup>(c)</sup>	\$ -	-	17	66		83

(a) Net interest rate derivatives include derivative assets and liabilities of \$15 and \$3, respectively, as of December 31, 2015. Net equity derivatives include derivative assets and liabilities of \$262 and \$61, respectively, as of December 31, 2015.

(b) Includes certain residential mortgage loans held for sale that were transferred to held for investment.

(c) Includes interest income and expense.

For the year ended December 31, 2014 (\$ in millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					Total Fair Value
	Trading Securities	Residential Mortgage Loans	Interest Rate Derivatives, Net <sup>(a)</sup>	Equity Derivatives, Net <sup>(a)</sup>		
Balance, beginning of period	\$ 1	92	8	336		437
Total gains (losses) (realized/unrealized):						
Included in earnings	-	4	125	(7)		122
Purchases	-	-	(1)	-		(1)
Sales	(1)	-	-	-		(1)
Settlements	-	(17)	(122)	37		(102)
Transfers into Level 3 <sup>(b)</sup>	-	29	-	-		29
Balance, end of period	\$ -	108	10	366		484
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to instruments still held at December 31, 2014 <sup>(c)</sup>	\$ -	4	13	(7)		10

(a) Net interest rate derivatives include derivative assets and liabilities of \$12 and \$2, respectively, as of December 31, 2014. Net equity derivatives include derivative assets and liabilities of \$415 and \$49, respectively, as of December 31, 2014.

(b) Includes certain residential mortgage loans held for sale that were transferred to held for investment.

(c) Includes interest income and expense.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014 as follows:

(\$ in millions)	2016	2015	2014
Mortgage banking net revenue	\$ 112	110	127
Corporate banking revenue	1	1	2
Other noninterest income	17	288	(7)
<b>Total gains</b>	<b>\$ 130</b>	399	122

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 December 31, 2016, 2015 and 2014 were recorded in the Consolidated Statements of Income as follows:

(\$ in millions)	2016	2015	2014
Mortgage banking net revenue	\$ 10	16	16
Corporate banking revenue	1	1	1
Other noninterest income	(56)	66	(7)
<b>Total (losses) gains</b>	<b>\$ (45)</b>	83	10

The following tables present information as of December 31, 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:

**As of December 31, 2016 (\$ in millions)**

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
Residential mortgage loans	\$ 143	Loss rate model	Interest rate risk factor	(11.5) - 13.8%	2.3%
			Credit risk factor		
IRLCs, net	12	Discounted cash flow	Loan closing rates	23.8 - 99.5%	76.8%
Swap associated with the sale of Visa, Inc. Class B Shares	(91)	Discounted cash flow	Timing of the resolution of the Covered Litigation	12/31/2018 - 12/31/2022	NM

**As of December 31, 2015 (\$ in millions)**

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
Residential mortgage loans	\$ 167	Loss rate model	Interest rate risk factor	(9.2) - 16.5%	3.1%
			Credit risk factor		
IRLCs, net	15	Discounted cash flow	Loan closing rates	5.8 - 94.0%	76.3%
Stock warrant associated with Vantiv Holding, LLC	262	Black-Scholes option-pricing model	Expected term (years)	2.0 - 13.5	5.9
Swap associated with the sale of Visa, Inc. Class B Shares	(61)	Discounted cash flow	Expected volatility <sup>(a)</sup>	22.6 - 31.2%	25.9%
			Timing of the resolution of the Covered Litigation		

*(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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables provide the fair value hierarchy and carrying amount of all assets that were held as of December 31, 2016 and 2015 and for which a nonrecurring fair value adjustment was recorded during the years ended December 31, 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.

As of December 31, 2016 (\$ in millions)	Fair Value Measurements Using				Total	Total (Losses) Gains For the year ended December 31, 2016
	Level 1	Level 2	Level 3			
Commercial loans held for sale	\$ -	-	5	5	5	(32)
Commercial and industrial loans	-	-	412	412	412	(166)
Commercial mortgage loans	-	-	15	15	15	(4)
Commercial construction loans	-	-	-	-	-	2
Commercial leases	-	-	3	3	3	(3)
MSRs	-	-	744	744	744	7
OREO	-	-	42	42	42	(17)
Bank premises and equipment	-	-	28	28	28	(31)
Operating lease equipment	-	-	37	37	37	(9)
Private equity investments	-	-	60	60	60	(9)
<b>Total</b>	<b>\$ -</b>	<b>-</b>	<b>1,346</b>	<b>1,346</b>	<b>1,346</b>	<b>(262)</b>

As of December 31, 2015 (\$ in millions)	Fair Value Measurements Using				Total	Total (Losses) Gains For the year ended December 31, 2015
	Level 1	Level 2	Level 3			
Commercial loans held for sale	\$ -	-	13	13	13	3
Residential mortgage loans held for sale	-	-	68	68	68	(2)
Automobile loans held for sale	-	-	2	2	2	-
Credit cards held for sale	-	-	4	4	4	(2)
Commercial and industrial loans	-	-	344	344	344	(137)
Commercial mortgage loans	-	-	103	103	103	(41)
Commercial construction loans	-	-	6	6	6	(5)
Residential mortgage loans	-	-	55	55	55	(1)
MSRs	-	-	784	784	784	4
OREO	-	-	58	58	58	(24)
Bank premises and equipment	-	-	83	83	83	(101)
Operating lease equipment	-	-	42	42	42	(33)
Private equity investments	-	-	13	13	13	(1)
<b>Total</b>	<b>\$ -</b>	<b>-</b>	<b>1,575</b>	<b>1,575</b>	<b>1,575</b>	<b>(340)</b>

The following tables present information as of December 31, 2016 and 2015 about significant unobservable inputs related to the Bancorp's material categories of Level 3 financial assets measured on a nonrecurring basis:

As of December 31, 2016 (\$ in millions)	Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
	Commercial loans held for sale	\$ 5	Appraised value	Appraised value	NM	NM
	Commercial and industrial loans	412	Appraised value	Collateral value	NM	NM
	Commercial mortgage loans	15	Appraised value	Collateral value	NM	NM
	Commercial construction loans	-	Appraised value	Collateral value	NM	NM
	Commercial leases	3	Appraised value	Appraised value	NM	NM
	MSRs	744	Discounted cash flow	Prepayment speed	0.7 - 100%	(Fixed) 10.2% (Adjustable) 25.3%
				OAS spread (bps)	100 - 1,515	(Fixed) 654 (Adjustable) 738
	OREO	42	Appraised value	Appraised value	NM	NM
	Bank premises and equipment	28	Appraised value	Appraised value	NM	NM
	Operating lease equipment	37	Appraised value	Appraised value	NM	NM
	Private equity investments	60	Liquidity discount applied to fund's net asset value	Liquidity discount	5.0 - 37.5%	12.8%

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2015 (\$ in millions)

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Ranges of Inputs	Weighted-Average
Commercial loans held for sale	\$ 13	Discounted cash flow	Discount spread	NM	4.4%
Residential mortgage loans held for sale	68	Loss rate model	Interest rate risk factor	(7.5) - 0.1%	(1.6%)
			Credit risk factor	NM	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	344	Appraised value	Collateral value	NM	NM
Commercial mortgage loans	103	Appraised value	Collateral value	NM	NM
Commercial construction loans	6	Appraised value	Collateral value	NM	NM
Residential mortgage loans	55	Appraised value	Appraised value	NM	NM
MSRs	784	Discounted cash flow	Prepayment speed	1.0 - 100%	(Fixed) 11.8% (Adjustable) 27.0%
			OAS spread (bps)	364 - 1,515	(Fixed) 618 (Adjustable) 703
OREO	58	Appraised value	Appraised value	NM	NM
Bank premises and equipment	83	Appraised value	Appraised value	NM	NM
Operating lease equipment	42	Appraised value	Appraised value	NM	NM
Private equity investments	13	Liquidity discount applied to fund's net asset value	Liquidity discount	NM	18.0%

*Commercial loans held for sale*

During the years ended December 31, 2016 and 2015, the Bancorp transferred \$140 million and \$37 million, respectively, of commercial loans from the portfolio to loans held for sale that upon transfer were measured at the lower of cost or fair value. These loans had fair value adjustments during the years ended December 31, 2016 and 2015 totaling \$30 million and \$1 million, respectively, and were generally based on either 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, during the years ended December 31, 2016 and 2015 there were fair value adjustments on existing loans held for sale of \$2 million and \$1 million, respectively. The fair value adjustments were also based on appraisals of the underlying collateral. The Bancorp recognized an immaterial amount of net gains on the sale of certain commercial loans held for sale during the year ended December 31, 2016 and \$5 million in gains on the sale of certain commercial loans held for sale during the year ended December 31, 2015.

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 year ended December 31, 2016, the Bancorp did not transfer any residential mortgage loans from the portfolio to loans held for sale. During the year ended December 31, 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 \$2 million of fair value adjustments during the year ended December 31, 2015. 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 years ended December 31, 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Residential mortgage loans*

During the year ended December 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 both the years ended December 31, 2016 and 2015 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. 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 12 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 years ended December 31, 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. For the years ended December 31, 2016 and 2015, these losses include \$8 million and \$14 million, respectively, recorded as charge-offs, on new OREO properties transferred from loans during the respective periods and \$9 million and \$10 million, respectively, recorded as negative fair value adjustments on OREO in other noninterest expense in the 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.

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 the years ended December 31, 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. During the years ended December 31, 2016 and 2015, the Bancorp recorded net losses of \$9 million and \$33 million, respectively, as a reduction to corporate banking revenue in the Consolidated Statements of Income. 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. Refer to Note 8 for further information on impairment charges related to certain 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. The Bancorp recognized \$9 million and \$1 million of OTTI primarily associated with certain nonconforming investments affected by the Volcker Rule during the years ended December 31, 2016 and 2015, respectively. 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 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 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 \$6 million and \$17 million, respectively. These gains are reported in mortgage banking net revenue in the 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 December 31, 2016 and 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 Consolidated Statements of Income.

The following table summarizes the difference between the fair value and the principal balance for residential mortgage loans measured at fair value as of:

(\$ in millions)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
<b>December 31, 2016</b>			
Residential mortgage loans measured at fair value	\$ 829	823	6
Past due loans of 90 days or more	2	2	-
Nonaccrual loans	1	1	-
<b>December 31, 2015</b>			
Residential mortgage loans measured at fair value	\$ 686	669	17
Past due loans of 90 days or more	2	2	-
Nonaccrual loans	2	2	-



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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:

As of December 31, 2016 (\$ in millions)	Net Carrying Amount	Fair Value Measurements Using			Total Fair Value
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 2,392	2,392	-	-	2,392
Other securities	607	-	607	-	607
Held-to-maturity securities	26	-	-	26	26
Other short-term investments	2,754	2,754	-	-	2,754
Loans held for sale	65	-	-	65	65
Portfolio loans and leases:					
Commercial and industrial loans	40,958	-	-	41,976	41,976
Commercial mortgage loans	6,817	-	-	6,735	6,735
Commercial construction loans	3,887	-	-	3,853	3,853
Commercial leases	3,959	-	-	3,651	3,651
Residential mortgage loans	14,812	-	-	15,415	15,415
Home equity	7,637	-	-	8,421	8,421
Automobile loans	9,941	-	-	9,640	9,640
Credit card	2,135	-	-	2,503	2,503
Other consumer loans and leases	668	-	-	678	678
Unallocated ALLL	(112)	-	-	-	-
Total portfolio loans and leases, net	\$ 90,702	-	-	92,872	92,872
Financial liabilities:					
Deposits	\$ 103,821	-	103,811	-	103,811
Federal funds purchased	132	132	-	-	132
Other short-term borrowings	3,535	-	3,535	-	3,535
Long-term debt	14,388	14,288	545	-	14,833

As of December 31, 2015 (\$ in millions)	Net Carrying Amount	Fair Value Measurements Using			Total Fair Value
		Level 1	Level 2	Level 3	
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 <sup>(a)</sup>	15,810	15,603	625	-	16,228

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 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 1.

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, other securities consisting of FHLB, FRB and DTCC 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *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.

**28. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL RATIOS**

The Board of Governors of the Federal Reserve System issued capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a BHC and in analyzing applications to it under the BHCA of 1956, as amended. These guidelines include quantitative measures that assign risk weightings to assets and off-balance sheet items, as well as define and set minimum regulatory capital requirements. The regulatory capital requirements were revised by the Basel III Final Rule which 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 Common equity Tier 1 capital of at least 4.5% (CET1 ratio), Tier I capital (core capital) of at least 6% of risk-weighted assets (Tier I risk-based capital ratio), Total regulatory capital (Tier I plus Tier II capital) of at least 8% of risk-weighted assets (Total risk-based capital ratio) and Tier I capital of at least 4% of adjusted quarterly average assets (Tier I leverage ratio). Failure to meet the minimum capital requirements can initiate certain actions by regulators that could have a direct material effect on the Consolidated Financial Statements of the Bancorp. Additionally, when fully phased-in in 2019, the Basel III Final Rule will include a capital conservation buffer requirement of 2.5% in addition to the minimum capital requirements of the CET1, Tier I capital and Total risk-based capital ratios in order to avoid limitations on capital distributions and discretionary bonus payments to executive officers.

The Basel III Final Rule provided for certain BHCs, including the Bancorp, to opt out of including AOCI in regulatory capital and also retained the treatment of residential mortgage exposures consistent with the prior Basel I capital rules. Fifth Third made a one-time permanent election to not include AOCI in regulatory capital in the March 31, 2015 FFIEC 031 for its banking subsidiary and FR Y-9C filing for the Bancorp. 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 December 31, 2016, the Bancorp's TruPS no

longer qualified for Tier I capital, compared to \$13 million of TruPS, or 1 bp of risk-weighted assets, which qualified as Tier I capital at December 31, 2015. The Bancorp's Tier II capital consists principally of term subordinated debt and, subject to limitations, allowances for credit losses.

The Bancorp's assets and credit equivalent amounts of off-balance sheet items are assigned to one of several broad risk categories according to the Standardized Approach for risk-weighting assets as defined in the Basel III Final Rule. The aggregate dollar value of the amount of each category is multiplied by the associated risk weighting. The resulting weighted values from each of the risk categories in sum is the total risk-weighted assets. Quarterly average assets are a component of the Tier I leverage ratio and for this purpose do not include goodwill and any other intangible assets and other investments that the FRB determines should be deducted from Tier I capital.

The Board of Governors of the Federal Reserve System issued capital adequacy guidelines for banking subsidiaries substantially similar to those adopted for BHCs, as described previously. In addition, the U.S. banking agencies have issued substantially similar regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the regulations, a bank generally shall be deemed to be well-capitalized if it has a CET1 ratio of 6.5% or more, a Tier I risk-based capital ratio of 8% or more, a Total risk-based capital ratio of 10% or more, a Tier I leverage ratio of 5% or more and is not subject to any written capital order or directive. If an institution becomes undercapitalized, it would become subject to significant additional oversight, regulations and requirements as mandated by the FDIA.

The Bancorp and its banking subsidiary, Fifth Third Bank, had CET1 capital, Tier I risk-based capital, Total risk-based capital and Tier I leverage ratios above the well-capitalized levels at December 31, 2016 and 2015. To continue to qualify for financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999, the Bancorp's banking subsidiary must, among other things, maintain "well-capitalized" capital ratios. In addition, the Bancorp exceeded the "capital conservation buffer" ratio for all periods presented.

The following table presents capital and risk-based capital and leverage ratios for the Bancorp and its banking subsidiary at December 31:

(\$ in millions)	2016		2015	
	Amount	Ratio	Amount	Ratio <sup>(a)</sup>
CET1 capital (to risk-weighted assets):				
Fifth Third Bancorp	\$ 12,426	10.39 %	\$ 11,917	9.82 %
Fifth Third Bank	14,015	11.92	14,216	11.92
Tier I risk-based capital (to risk-weighted assets):				
Fifth Third Bancorp	13,756	11.50	13,260	10.93
Fifth Third Bank	14,015	11.92	14,216	11.92
Total risk-based capital (to risk-weighted assets):				
Fifth Third Bancorp	17,972	15.02	17,134	14.13
Fifth Third Bank	16,175	13.76	15,642	13.12
Tier I leverage (to quarterly average assets):				
Fifth Third Bancorp	13,756	9.90	13,260	9.54
Fifth Third Bank	14,015	10.30	14,216	10.43

(a) Ratios not restated for the adoption of the amended guidance of ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs." For further information, refer to Note 1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. PARENT COMPANY FINANCIAL STATEMENTS

**Condensed Statements of Income (Parent Company Only)**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Income</b>			
Dividends from subsidiaries:			
Consolidated nonbank subsidiaries <sup>(a)</sup>	\$ 1,886	1,040	1,094
Interest on loans to subsidiaries	18	15	14
Total income	1,904	1,055	1,108
<b>Expenses</b>			
Interest	171	178	163
Other	18	22	17
Total expenses	189	200	180
<b>Income Before Income Taxes and Change in Undistributed Earnings of Subsidiaries</b>	<b>1,715</b>	<b>855</b>	<b>928</b>
Applicable income tax benefit	63	69	62
<b>Income Before Change in Undistributed Earnings of Subsidiaries</b>	<b>1,778</b>	<b>924</b>	<b>990</b>
Change in undistributed earnings	(214)	788	491
<b>Net Income</b>	<b>\$ 1,564</b>	<b>1,712</b>	<b>1,481</b>
<b>Other Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Comprehensive Income Attributable to Bancorp</b>	<b>\$ 1,564</b>	<b>1,712</b>	<b>1,481</b>

(a) The Bancorp's indirect banking subsidiary paid dividends to the Bancorp's direct nonbank subsidiary holding company of \$1.9 billion, \$1.0 billion and \$1.1 billion for the years ended December 31, 2016, 2015 and 2014, respectively.

**Condensed Balance Sheets (Parent Company Only)**

As of December 31 (\$ in millions)	2016	2015
<b>Assets</b>		
Cash	\$ 130	128
Short-term investments	3,074	3,728
Loans to subsidiaries:		
Nonbank subsidiaries	969	982
Total loans to subsidiaries	969	982
Investment in subsidiaries:		
Nonbank subsidiaries	17,588	17,831
Total investment in subsidiaries	17,588	17,831
Goodwill	80	80
Other assets	366	414 <sup>(a)</sup>
<b>Total Assets</b>	<b>\$ 22,207</b>	<b>23,163<sup>(a)</sup></b>
<b>Liabilities</b>		
Other short-term borrowings	\$ 344	404
Accrued expenses and other liabilities	461	433
Long-term debt (external)	5,170	6,456 <sup>(a)</sup>
<b>Total Liabilities</b>	<b>\$ 5,975</b>	<b>7,293<sup>(a)</sup></b>
<b>Shareholders' Equity</b>		
Common stock	\$ 2,051	2,051
Preferred stock	1,331	1,331
Capital surplus	2,756	2,666
Retained earnings	13,441	12,358
Accumulated other comprehensive income	59	197
Treasury stock	(3,433)	(2,764)
Noncontrolling interests	27	31
<b>Total Equity</b>	<b>16,232</b>	<b>15,870</b>
<b>Total Liabilities and Equity</b>	<b>\$ 22,207</b>	<b>23,163<sup>(a)</sup></b>

(a) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2015 Condensed Balance Sheet was adjusted to reflect the reclassification of \$17 of debt issuance costs from other assets to long-term debt. For further information refer to Note 1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Condensed Statements of Cash Flows (Parent Company Only)**

For the years ended December 31 (\$ in millions)	2016	2015	2014
<b>Operating Activities</b>			
Net income	\$ 1,564	1,712	1,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Benefit from deferred income taxes	-	(4)	(1)
Net change in undistributed earnings	214	(788)	(491)
Net change in:			
Other assets	14	(18)	9
Accrued expenses and other liabilities	(35)	31	(41)
<b>Net Cash Provided by Operating Activities</b>	<b>1,757</b>	<b>933</b>	<b>957</b>
<b>Investing Activities</b>			
Net change in:			
Short-term investments	654	(539)	(684)
Loans to subsidiaries	13	2	(10)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>667</b>	<b>(537)</b>	<b>(694)</b>
<b>Financing Activities</b>			
Net change in other short-term borrowings	(60)	(22)	115
Proceeds from issuance of long-term debt	-	1,099	499
Repayment of long-term debt	(1,250)	-	-
Dividends paid on common stock	(402)	(422)	(423)
Dividends paid on preferred stock	(52)	(75)	(67)
Issuance of preferred stock	-	-	297
Repurchase of treasury stock and related forward contract	(661)	(850)	(654)
Other, net	3	2	(30)
<b>Net Cash Used in Financing Activities</b>	<b>(2,422)</b>	<b>(268)</b>	<b>(263)</b>
<b>Increase in Cash</b>	<b>2</b>	<b>128</b>	<b>-</b>
<b>Cash at Beginning of Period</b>	<b>128</b>	<b>-</b>	<b>-</b>
<b>Cash at End of Period</b>	<b>\$ 130</b>	<b>128</b>	<b>-</b>

### 30. 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, the business segments are insulated from most benchmark interest rate volatility, enabling them to focus on serving customers through the origination of loans and acceptance of deposits. The FTP methodology assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on the estimated amount and timing of cash flows for each transaction. Assigning the FTP rate based on matching the duration of cash flows allocates interest income and interest expense to each business segment so its resulting net interest income is insulated from future changes in benchmark interest rates. The Bancorp's FTP methodology also allocates the contribution to net interest income of the asset-generating and deposit-providing businesses on a duration-adjusted basis to better attribute the driver of the performance. As the asset and liability durations are not perfectly matched, the residual impact of the FTP methodology is captured in General Corporate and Other. The charge and credit rates are determined using the FTP rate curve, which is based on an estimate of Fifth Third's marginal borrowing cost in the wholesale funding markets. The FTP curve is constructed using the U.S. swap curve, brokered CD pricing and unsecured debt pricing.

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 behavioural assumptions, such as prepayment rates on interest-earning assets and the estimated durations for indeterminate-lived deposits. Key assumptions, including the credit rates provided for deposit accounts, are reviewed annually. Credit rates for deposit products and charge rates for loan products may be reset more frequently in response to changes in market conditions. 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 business segments 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 business segments during 2016.

During the first quarter of 2016, the Bancorp refined its methodology for allocating provision for loan and lease losses 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 years ended December 31, 2015 and 2014 were adjusted to reflect this change. Provision for loan and lease losses 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 years ended December 31, 2015 and 2014 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables present the results of operations and assets by business segment for the years ended December 31:

	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	General Corporate and Other	Eliminations	Total
<b>2016 (\$ in millions)</b>							
Net interest income	\$ 1,814	1,669	248	168	(284)	-	3,615
Provision for loan and lease losses	76	138	44	1	84	-	343
Net interest income after provision for loan and lease losses	1,738	1,531	204	167	(368)	-	3,272
Total noninterest income	907 <sup>(c)</sup>	755 <sup>(b)</sup>	303	399	463	(131) <sup>(a)</sup>	2,696
Total noninterest expense	1,426	1,621	475	422	90	(131)	3,903
Income before income taxes	1,219	665	32	144	5	-	2,065
Applicable income tax expense	224	234	12	51	(16)	-	505
Net income	995	431	20	93	21	-	1,560
Less: Net income attributable to noncontrolling interests	-	-	-	-	(4)	-	(4)
Net income attributable to Bancorp	995	431	20	93	25	-	1,564
Dividends on preferred stock	-	-	-	-	75	-	75
Net income available to common shareholders	\$ 995	431	20	93	(50)	-	1,489
Total goodwill	\$ 613	1,655	-	148	-	-	2,416
Total assets	\$ 58,092	55,940	22,041	9,487	(3,383) <sup>(d)</sup>	-	142,177

(a) Revenue sharing agreements between wealth and asset management and branch banking are eliminated in the Consolidated Statements of Income.

(b) Includes impairment charges of \$32 for branches and land. For more information refer to Note 7 and Note 27.

(c) Includes impairment charges of \$20 for operating lease equipment. For more information refer to Note 8 and Note 27.

(d) Includes bank premises and equipment of \$39 classified as held for sale. For more information, refer to Note 7.

	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	General Corporate and Other	Eliminations	Total
<b>2015 (\$ in millions)</b>							
Net interest income	\$ 1,625	1,555	249	128	(24)	-	3,533
Provision for loan and lease losses	298	151	44	3	(100)	-	396
Net interest income after provision for loan and lease losses	1,327	1,404	205	125	76	-	3,137
Total noninterest income	853 <sup>(c)</sup>	652 <sup>(b)</sup>	407	418	822	(149) <sup>(a)</sup>	3,003
Total noninterest expense	1,369	1,598	440	455	62	(149)	3,775
Income before income taxes	811	458	172	88	836	-	2,365
Applicable income tax expense	93	161	61	30	314	-	659
Net income	718	297	111	58	522	-	1,706
Less: Net income attributable to noncontrolling interests	-	-	-	-	(6)	-	(6)
Net income attributable to Bancorp	718	297	111	58	528	-	1,712
Dividends on preferred stock	-	-	-	-	75	-	75
Net income available to common shareholders	\$ 718	297	111	58	453	-	1,637
Total goodwill	\$ 613	1,655	-	148	-	-	2,416
Total assets <sup>(e)</sup>	\$ 58,105	53,609	22,656	9,939	(3,261) <sup>(d)</sup>	-	141,048

(a) Revenue sharing agreements between wealth and asset management and branch banking are eliminated in the Consolidated Statements of Income.

(b) Includes impairment charges of \$109 for branches and land. For more information refer to Note 7 and Note 27.

(c) Includes impairment charges of \$36 for operating lease equipment. For more information, refer to Note 8 and Note 27.

(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 December 31, 2015 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 1.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

2014 (\$ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Wealth and Asset Management	General Corporate and Other	Eliminations	Total
Net interest income	\$ 1,627	1,573	258	121	-	-	3,579
Provision for loan and lease losses	141	171	156	1	(154)	-	315
Net interest income after provision for loan and lease losses	1,486	1,402	102	120	154	-	3,264
Total noninterest income	880	726 <sup>(b)</sup>	350	410	253	(146) <sup>(c)</sup>	2,473
Total noninterest expense	1,281	1,587	558	443	(14)	(146)	3,709
Income (loss) before income taxes	1,085	541	(106)	87	421	-	2,028
Applicable income tax expense (benefit)	201	191	(37)	29	161	-	545
Net income (loss)	884	350	(69)	58	260	-	1,483
Less: Net income attributable to noncontrolling interests	-	-	-	-	2	-	2
Net income (loss) attributable to Bancorp	884	350	(69)	58	258	-	1,481
Dividends on preferred stock	-	-	-	-	67	-	67
Net income (loss) available to common shareholders	\$ 884	350	(69)	58	191	-	1,414
Total goodwill	\$ 613	1,655	-	148	-	-	2,416
Total assets <sup>(d)</sup>	\$ 56,400	51,488	22,567	10,445	(2,230) <sup>(c)</sup>	-	138,670

(a) Revenue sharing agreements between wealth and asset management and branch banking are eliminated in the Consolidated Statements of Income.

(b) Includes impairment charges of \$20 for branches and land. For more information refer to Note 7 and Note 27.

(c) Includes bank premises and equipment of \$26 classified as held for sale. For more information, refer to Note 7.

(d) Upon adoption of ASU 2015-03 on January 1, 2016, the December 31, 2014 Consolidated Balance Sheet was adjusted to reflect the reclassification of \$36 of debt issuance costs from other assets to long-term debt. For further information, refer to Note 1.



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

Commission file number 001-33653



Incorporated in the State of Ohio  
I.R.S. Employer Identification No. 31-0854434  
Address: 38 Fountain Square Plaza  
Cincinnati, Ohio 45263  
Telephone: (800) 972-3030

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, Without Par Value	The NASDAQ Stock Market LLC
Depository Shares Representing a 1/1000 <sup>th</sup> Ownership Interest in a Share of 6.625% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series I	The NASDAQ Stock Market LLC

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes:  No:

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes:  No:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes:  No:

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes:  No:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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

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

There were 750,864,896 shares of the Bancorp's Common Stock, without par value, outstanding as of January 31, 2017. The Aggregate Market Value of the Voting Stock held by non-affiliates of the Bancorp was \$13,447,748,736 as of June 30, 2016.

**DOCUMENTS INCORPORATED BY REFERENCE**

This report incorporates into a single document the requirements of the U.S. Securities and Exchange Commission (SEC) with respect to annual reports on Form 10-K and annual reports to shareholders. The Bancorp's Proxy Statement for the 2017 Annual Meeting of Shareholders is incorporated by reference into Part III of this report.

Only those sections of this 2016 Annual Report to Shareholders that are specified in this Cross Reference Index constitute part of the Registrant's Form 10-K for the year ended December 31, 2016. No other information contained in this 2016 Annual Report to Shareholders shall be deemed to constitute any part of this Form 10-K nor shall any such information be incorporated into the Form 10-K and shall not be deemed "filed" as part of the Registrant's Form 10-K.

**10-K Cross Reference Index**

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## PART IV

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## PART I

### ITEM 1. BUSINESS

#### General Information

Fifth Third Bancorp (the “Bancorp”), an Ohio corporation organized in 1975, is a bank holding company (“BHC”) as defined by the Bank Holding Company Act of 1956, as amended (the “BHCA”), and is registered as such with the Board of Governors of the Federal Reserve System (the “FRB”).

The Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. As of December 31, 2016, the Company had \$142 billion in assets and operates 1,191 full-service Banking Centers, and 2,495 ATMs in Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Georgia and North Carolina. Fifth Third operates four main businesses: Commercial Banking, Branch Banking, Consumer Lending, and Wealth & Asset Management. Fifth Third also has a 17.9% interest in Vantiv Holding, LLC. The carrying value of the Bancorp’s investment in Vantiv Holding, LLC was \$414 million as of December 31, 2016. Fifth Third is among the largest money managers in the Midwest and, as of December 31, 2016, had \$315 billion in assets under care, of which it managed \$31 billion for individuals, corporations and not-for-profit organizations. [Investor information](#) and [press releases](#) can be viewed at [www.53.com](http://www.53.com). Fifth Third’s common stock is traded on the NASDAQ® Global Select Market under the symbol “FITB.”

The Bancorp’s subsidiaries provide a wide range of financial products and services to the retail, commercial, financial, governmental, educational, energy and medical sectors, including a wide variety of checking, savings and money market accounts, treasury management products, wealth management solutions, payments and commerce solutions, insurance services and credit products such as credit cards, installment loans, mortgage loans and leases. These products and services are delivered through a variety of channels and methods including the Company’s Banking Centers, other offices, telephone sales, the internet and mobile applications. Fifth Third Bank has deposit insurance provided by the Federal Deposit Insurance Corporation (the “FDIC”) through the Deposit Insurance Fund. Refer to Exhibit 21 filed as an attachment to this Annual Report on Form 10-K for a list of subsidiaries of the Bancorp as of December 31, 2016.

The Bancorp derives the majority of its revenues from the U.S. Revenue from foreign countries and external customers domiciled in foreign countries is immaterial to the Bancorp’s Consolidated Financial Statements.

Additional information regarding the Bancorp’s businesses is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

#### Availability of Financial Information

The Bancorp files reports with the SEC. Those reports include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements, as well as any amendments to those reports. The public may read and copy any materials the Bancorp files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers

that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The Bancorp’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are accessible at no cost on the Bancorp’s web site at <https://www.53.com> on a same day basis after they are electronically filed with or furnished to the SEC.

#### Competition

The Bancorp competes for deposits, loans and other banking services in its principal geographic markets as well as in selected national markets as opportunities arise. In addition to traditional financial institutions, the Bancorp competes with securities dealers, brokers, mortgage bankers, investment advisors and insurance companies as well as financial technology companies. These companies compete across geographic boundaries and provide customers with meaningful alternatives to traditional banking services in nearly all significant products. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology, product delivery systems and the accelerating pace of consolidation among financial service providers. These competitive trends are likely to continue.

#### Acquisitions and Investments

The Bancorp’s strategy for growth includes strengthening its presence in core markets, expanding into contiguous markets and broadening its product offerings while taking into account the integration and other risks of growth. The Bancorp evaluates strategic acquisition and investment opportunities and conducts due diligence activities in connection with possible transactions. As a result, discussions, and in some cases, negotiations may take place and future acquisitions involving cash, debt or equity securities may occur. These typically involve the payment of a premium over book value and current market price, and therefore, some dilution of book value and net income per share may occur with any future transactions.

#### Regulation and Supervision

In addition to the generally applicable state and federal laws governing businesses and employers, the Bancorp and its banking subsidiary are subject to extensive regulation by federal and state laws and regulations applicable to financial institutions and their parent companies. Virtually all aspects of the business of the Bancorp and its banking subsidiary are subject to specific requirements or restrictions and general regulatory oversight. The principal objectives of state and federal banking laws and regulations and the supervision, regulation and examination of banks and their parent companies (such as the Bancorp) by bank regulatory agencies are the maintenance of the safety and soundness of financial institutions, maintenance of the federal deposit insurance system and the protection of consumers or classes of consumers, rather than the specific protection of shareholders of a bank or the parent company of a bank. The Bancorp and its subsidiaries are subject to an extensive regulatory framework of complex and comprehensive federal and state laws and regulations addressing the provision of banking and other financial services and other aspects of the Bancorp’s businesses and operations. Regulation and regulatory oversight have increased significantly since 2010 as a result of the passage of The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “DFA”). The DFA imposes regulatory requirements and

oversight over banks and other financial institutions in a number of ways, among which are (i) creating the Consumer Financial Protection Bureau (the “CFPB”) to regulate consumer financial products and services; (ii) creating the Financial Stability Oversight Council to identify and impose additional regulatory oversight on large financial firms; (iii) granting orderly liquidation authority to the FDIC for the liquidation of financial corporations that pose a risk to the financial system of the U.S.; (iv) requiring financial institutions to draft a resolution plan that contemplates the dissolution of the enterprise and submit that resolution plan to both the Federal Reserve and the FDIC; (v) limiting debit card interchange fees; (vi) adopting certain changes to shareholder rights and responsibilities, including a shareholder “say on pay” vote on executive compensation; (vii) strengthening the SEC’s powers to regulate securities markets; (viii) regulating OTC derivative markets; (ix) restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; (x) changing the base upon which the deposit insurance assessment is assessed from deposits to, substantially, average consolidated assets minus equity; and (xi) amending the Truth in Lending Act with respect to mortgage originations, including originator compensation, minimum repayment standards, and prepayment considerations. To the extent the following material describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. In addition, due to the volume of regulations required by the DFA, not all proposed or final regulations that may have an impact on the Bancorp or its banking subsidiary are necessarily discussed.

#### *Regulators*

The Bancorp and/or its banking subsidiary are subject to regulation and supervision primarily by the FRB, the CFPB and the Ohio Division of Financial Institutions (the “Division”) and additionally by certain other functional regulators and self-regulatory organizations. The Bancorp is also subject to regulation by the SEC by virtue of its status as a public company and due to the nature of some of its businesses. The Bancorp’s banking subsidiary is subject to regulation by the FDIC, which insures the bank’s deposits as permitted by law.

The federal and state laws and regulations that are applicable to banks and to BHCs regulate, among other matters, the scope of their business, their activities, their investments, their capital and liquidity levels, their reserves against deposits, the timing of the availability of deposited funds, the amount of loans to individual and related borrowers and the nature, the amount of and collateral for certain loans, and the amount of interest that may be charged on loans as applicable. Various federal and state consumer laws and regulations also affect the services provided to consumers.

The Bancorp and/or its banking subsidiary are required to file various reports with, and is subject to examination by regulators, including the FRB and the Division. The FRB, the Division and the CFPB have the authority to issue orders for BHCs and/or banks to cease and desist from certain banking practices and violations of conditions imposed by, or violations of agreements with, the FRB, the Division and the CFPB. Certain of the Bancorp’s and/or its banking subsidiary regulators are also empowered to assess civil money penalties against companies or individuals in certain situations, such as when there is a violation of a law or regulation. Applicable state and federal laws also

grant certain regulators the authority to impose additional requirements and restrictions on the activities of the Bancorp and or its banking subsidiary and, in some situations, the imposition of such additional requirements and restrictions will not be publicly available information.

#### *Acquisitions*

The BHCA requires the prior approval of the FRB for a BHC to acquire substantially all the assets of a bank or to acquire direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank, BHC or savings association, or to increase any such non-majority ownership or control of any bank, BHC or savings association, or to merge or consolidate with any BHC.

The BHCA prohibits a BHC from acquiring a direct or indirect interest in or control of more than 5% of any class of the voting shares of a company that is not a bank or a BHC and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its banking subsidiaries, except that it may engage in and may own shares of companies engaged in certain activities the FRB has determined to be so closely related to banking or managing or controlling banks as to be proper incident thereto.

#### *Financial Holding Companies*

The Gramm-Leach-Bliley Act of 1999 (“GLBA”) permits a qualifying BHC to become a financial holding company (“FHC”) and thereby to engage directly or indirectly in a broader range of activities than those permitted for a BHC under the BHCA. Permitted activities for a FHC include securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are declared by the FRB, in cooperation with the Treasury Department, to be “financial in nature or incidental thereto” or are declared by the FRB unilaterally to be “complementary” to financial activities. In addition, a FHC is allowed to conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the FRB. A BHC may elect to become a FHC if each of its banking subsidiaries is well capitalized, is well managed and has at least a “Satisfactory” rating under the Community Reinvestment Act (“CRA”). The DFA also extended the well capitalized and well managed requirement to the BHC. In 2000, the Bancorp elected and qualified for FHC status under the GLBA. To maintain FHC status, a holding company must continue to meet certain requirements. The failure to meet such requirements could result in material restrictions on the activities of the FHC and may also adversely affect the FHC’s ability to enter into certain transactions or obtain necessary approvals in connection therewith, as well as loss of FHC status. If restrictions are imposed on the activities of an FHC, such information may not necessarily be available to the public.

#### *Dividends*

The Bancorp depends in part upon dividends received from its direct and indirect subsidiaries, including its indirect banking subsidiary, to fund its activities, including the payment of dividends. The Bancorp and its banking subsidiary are subject to various federal and state restrictions on their ability to pay dividends. The FRB has authority to prohibit BHCs from paying dividends if such payment is deemed to be an unsafe or unsound practice. The FRB has indicated generally that it may be an unsafe or unsound practice for BHCs to pay dividends unless a BHC’s net income is sufficient to fund the dividends and the

expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition. The ability to pay dividends may be further limited by provisions of the DFA and implanting regulations (see Systematically Significant Companies and Capital).

#### *Source of Strength*

Under long-standing FRB policy and now as codified in the DFA, a BHC is expected to act as a source of financial and managerial strength to each of its banking subsidiaries and to commit resources to their support. This support may be required at times when the BHC may not have the resources to provide it.

#### *FDIC Assessments*

Pursuant to the DFA, in 2011 the FDIC revised the framework by which insured depository institutions with more than \$10 billion in assets ("large IDIs") are assessed for purposes of payments to the Deposit Insurance Fund (the "DIF").

Prior to the passage of the DFA, a large IDI's DIF premiums principally were based on the size of an IDI's domestic deposit base. The DFA changed the assessment base from a large IDI's domestic deposit base to its total assets less tangible equity. In addition to potentially greatly increasing the size of a large IDI's assessment base, the expansion of the assessment base affords the FDIC much greater flexibility to vary its assessment system based upon the different asset classes that large IDIs normally hold on their balance sheets.

To implement this provision, the FDIC created an assessment scheme vastly different from the deposit-based system. Under the new system, large IDIs are assessed under a complex "scorecard" methodology that seeks to capture both the probability that an individual large IDI will fail and the magnitude of the impact on the DIF if such a failure occurs.

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 Bancorp became subject to the FDIC surcharge and reduced regular FDIC insurance assessments on July 1, 2016. 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.

#### *Transactions with Affiliates*

Sections 23A and 23B of the Federal Reserve Act, restrict transactions between a bank and its affiliates (as defined in Sections 23A and 23B of the Federal Reserve Act), including a parent BHC. The Bancorp's banking subsidiary is subject to certain restrictions, including but not limited to restrictions on loans to its affiliates, on investments in the stock or securities thereof, on the taking of such stock or securities as collateral for loans to any borrower, and on the issuance of a guarantee or letter of credit on their behalf. Among other things, these restrictions limit the amount of such transactions, require collateral in prescribed amounts for extensions of credit, prohibit the purchase of low quality assets and require that the terms of such transactions be substantially equivalent to terms of comparable transactions with non-affiliates. Generally, the Bancorp's banking subsidiary is limited in its extension of credit to any affiliate to 10% of the banking subsidiary's capital stock and surplus and its

extension of credit to all affiliates to 20% of the banking subsidiary's capital stock and surplus.

#### *Community Reinvestment Act*

The CRA generally requires insured depository institutions, including the Bank, to identify the communities they serve and to make loans and investments and provide services that meet the credit needs of those communities and the CRA requires the FRB to evaluate the performance of such depository institutions with respect to these CRA obligations. Depository institutions must maintain comprehensive records of their CRA activities for purposes of these examinations. The FRB must take into account the record of performance of depository institutions in meeting the credit needs of the entire community served, including low- and moderate-income neighborhoods. For purposes of CRA examinations, the FRB rates such institutions' compliance with the CRA as "Outstanding," "Satisfactory," "Needs to Improve" or "Substantial Noncompliance." The Bank must be well-capitalized, well-managed and maintain at least a "Satisfactory" CRA rating for the Bancorp to retain its status as a financial holding company. Failure to meet these requirements could result in the FRB placing limitations or conditions on the Bancorp's activities (and the commencement of new activities, including merger with or acquisitions of other financial institutions) and could ultimately result in the loss of financial holding company status. The FRB conducted a regularly scheduled examination covering 2011 through 2013 to determine the Bancorp's banking subsidiary'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 commenced during the fourth quarter of 2016.

#### *Capital Generally*

The FRB has established capital guidelines for BHCs and FHCs. The FRB, the Division and the FDIC have also issued regulations establishing capital requirements for banks. Failure to meet capital requirements could subject the Bancorp and its banking subsidiary to a variety of restrictions and enforcement actions. In addition, as discussed previously, the Bancorp and its banking subsidiary must remain well capitalized and well managed for the Bancorp to retain its status as a FHC.

#### *Systemically Significant Companies and Capital*

Title I of the DFA created a new regulatory regime for large BHCs. U.S. BHCs with \$50 billion or more in total consolidated assets, including Fifth Third, are subject to enhanced prudential standards and early remediation requirements under Title I. Title I of the DFA established a broad framework for identifying, applying heightened supervision and regulation to, and (as necessary) limiting the size and activities of systemically significant financial companies.

The DFA required the FRB to impose enhanced capital and risk-management standards on these firms and mandated the FRB to conduct annual stress tests on all BHCs with \$50 billion or more in assets to determine whether they have adequate capital available to absorb losses in baseline, adverse, or severely adverse economic conditions. In November 2011, the FRB adopted final rules requiring BHCs with \$50 billion or more in consolidated

assets to submit capital plans to the FRB on an annual basis. Under the Comprehensive Capital Analysis and Review (CCAR) process, the FRB annually evaluates an institution's capital adequacy, internal capital adequacy, assessment processes and capital distribution plans such as dividend payments and stock repurchases. Banks are also required to report certain data to the FRB on a quarterly basis to allow the FRB to monitor progress against the approved capital plans.

The CCAR process is intended to help ensure that BHCs have robust, forward-looking capital planning processes that account for each company's unique risks and that permit continued operations during times of economic and financial stress. The mandatory elements of the capital plan are an assessment of the expected uses and sources of capital over a nine-quarter planning horizon, a description of all planned capital actions over the planning horizon, a discussion of any expected changes to the Bancorp's business plan that are likely to have a material impact on its capital adequacy or liquidity, a detailed description of the Bancorp's process for assessing capital adequacy and the Bancorp's capital policy. The stress tests require increased involvement by boards of directors in stress testing and public disclosure of the results of both the FRB's annual stress tests and a BHC's annual supervisory stress tests, and semi-annual internal stress tests.

In 2014, the FRB amended its capital planning and stress testing rules to, among other things, generally limit a BHC's ability to make quarterly capital distributions – that is, dividends and share repurchases – commencing April 1, 2015 if the amount of the bank's actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than the bank had indicated in its submitted capital plan as to which it received a non-objection from the FRB. For example, if the BHC issued a smaller amount of additional common stock than it had stated in its capital plan, it would be required to reduce common dividends and/or the amount of common stock repurchases so that the dollar amount of capital distributions, net of the dollar amount of additional common stock issued ("net distributions"), is no greater than the dollar amount of net distributions relating to its common stock included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the nine-quarter planning horizon through the end of the then current quarter. However, not raising sufficient amounts of common stock as planned would not affect distributions related to Additional Tier I Capital instruments and/ or Tier II Capital. These limitations also contain several important qualifications and exceptions, including that scheduled dividend payments on (as opposed to repurchases of) a BHC's Additional Tier I Capital and Tier II Capital instruments are not restricted if the BHC fails to issue a sufficient amount of such instruments as planned, as well as provisions for certain de minimis excess distributions. BHCs with consolidated assets of \$50 billion or more are required to submit their 2017 capital plan to the FRB by April 5, 2017.

In December of 2010 and revised in June of 2011, the Basel Committee on Banking Supervision (the "Basel Committee") issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organizations to hold capital in excess of regulatory minimums. In addition, Basel III establishes an international leverage standard for internationally active banks.

In July of 2013, U.S. banking regulators approved the final enhanced regulatory capital rules ("Final Capital Rules"). The Final Capital Rules substantially revise the risk-based capital requirements applicable to BHCs and their depository institution subsidiaries as compared to the previous U.S. risk-based capital and leverage ratio rules, and thereby implement certain provisions of the DFA.

The Final Capital Rules, among other things, (i) introduce a new capital measure "Common Equity Tier I" ("CET1"), (ii) specify that Tier I capital consists of CET1 and "Additional Tier I capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the adjustments as compared to existing regulations. CET1 capital consists of common stock instruments that meet the eligibility criteria in the final rules, including; common stock and related surplus, net of treasury stock and retained earnings, certain minority interests and accumulated other comprehensive income ("AOCI"), if elected.

When fully phased-in on January 1, 2019, the Final Capital Rules require banking organizations to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased-in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier I capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier I capital ratio as that buffer is phased-in, effectively resulting in a minimum Tier I capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital (that is, Tier I plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased-in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum Tier I leverage ratio of 4.0%, calculated as the ratio of Tier I capital to adjusted average consolidated assets.

Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will face limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

The Final Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under the Final Capital Rules, the Bancorp made a one-time election (the "Opt-out Election") to filter certain AOCI components, comparable to the treatment under the current general risk-based capital rule.

The Final Capital Rules were effective for the Bancorp on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. Although not currently required, Fifth Third Bancorp believes the aforementioned capital ratios under the revised Final Capital Rules meet or exceed the ratios on a fully phased-in basis. Refer to the Non-GAAP Financial Measures section of MD&A for an estimated CET1 capital ratio under the Basel III Final Rule (fully phased-in) as of December 31, 2016.

In February 2014, the FRB approved a final rule implementing several heightened prudential requirements. The rules require BHCs with \$10 billion or more in consolidated assets to establish risk committees and require BHCs with \$50 billion or more in total consolidated assets to comply with enhanced liquidity and overall risk management standards, including company-run liquidity stress testing and a buffer of highly liquid assets based on projected funding needs for various time horizons, including 30, 60, and 90 days. These liquidity-related provisions are designed to be complementary, and in addition to the Final LCR Rule applicable to BHCs (as discussed below). Rules to implement two other components of the DFA's enhanced prudential standards—single-counterparty credit limits and early remediation requirements—are still under consideration by the FRB. Fifth Third has conducted a self evaluation of all the requirements within the enhanced prudential standards, and believe the necessary steps have been taken to ensure compliance with all requirements regarding liquidity, risk exposures, and early remediation.

#### *Liquidity Regulation*

Liquidity risk management and supervision have become increasingly important since the financial crisis. On September 3, 2014, the FRB and other banking regulators adopted final rules ("Final LCR Rule") implementing a U.S. version of the Basel Committee's Liquidity Coverage Ratio requirement ("LCR"), which is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets ("HQLA") equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The rules apply in modified form to banking organizations, such as the Bancorp, having \$50 billion or more in total consolidated assets but less than \$250 billion. The LCR is the ratio of an institution's stock of HQLA (the numerator) over projected net cash out-flows over the 30-day horizon (the denominator), in each case, as calculated pursuant to the Final LCR Rule. Once fully phased-in, a subject institution must maintain an LCR equal to at least 100% in order to satisfy this regulatory requirement. Only specific classes of assets, including U.S. Treasuries, other U.S. government obligations and agency mortgaged-backed securities, qualify under the rule as HQLA, with classes of assets deemed relatively less liquid and/or subject to greater degree of credit risk subject to certain haircuts and caps for purposes of calculating the numerator under the Final LCR Rule. The total net cash outflows amount is determined under the rule by applying certain hypothetical outflow and inflow rates, which reflect certain standardized stressed assumptions, against the balances of the banking organization's funding sources, obligations, transactions and assets over the 30-day stress period. Inflows that can be included to offset outflows are limited to 75% of outflows (which effectively means that banking organizations must hold high-quality liquid assets equal to 25% of outflows even if outflows perfectly match inflows over the stress period). The total net cash outflow amount for the modified LCR applicable to the Bancorp is capped at 70% of the outflow rate that applies to the full LCR.

The initial compliance date for the modified LCR was January 31, 2016, with the requirement fully phased-in on January 1, 2017. The LCR is a minimum requirement, and the FRB can impose additional liquidity requirements as a supervisory matter.

In addition, the Bancorp is also subject to the liquidity-related requirements of the enhanced prudential supervision rules

adopted by the FRB under Section 165 of the DFA, as described above. As of December 31, 2016, the Bancorp's modified LCR complied with the fully phased-in LCR requirements which became effective on January 1, 2017.

In addition to the LCR, the Basel III framework also included a second standard, referred to as the net stable funding ratio ("NSFR"), which is designed to promote more medium-and long-term funding of the assets and activities of banks over a one-year time horizon. In May, 2016, the federal banking agencies proposed an NSFR Rule. As proposed the most stringent requirements would apply to firms with \$250 billion or more in assets or \$10 billion or more in on-balance sheet foreign exposure. Holding companies with less than \$250 billion, but more than \$50 billion in assets and less than \$10 billion in on-balance foreign exposure, such as the Bancorp, would be subject to a less stringent, modified NSFR requirement.

#### *Privacy*

The FRB, FDIC and other bank regulatory agencies have adopted final guidelines (the "Guidelines") for safeguarding confidential, personal customer information. The Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bancorp has adopted a customer information security program that has been approved by the Bancorp's Board of Directors.

The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, the statute requires explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in the banking subsidiary's policies and procedures. The Bancorp's banking subsidiary has implemented a privacy policy.

#### *Anti-Money Laundering*

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act"), designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Bancorp and its subsidiaries, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the

Bank Merger Act. The Bancorp's Board has approved policies and procedures that are believed to be compliant with the Patriot Act.

#### *Exempt Brokerage Activities*

The GLBA amended the federal securities laws to eliminate the blanket exceptions that banks traditionally have had from the definition of "broker" and "dealer." The GLBA also required that there be certain transactional activities that would not be "brokerage" activities, which banks could effect without having to register as a broker. In September 2007, the FRB and SEC approved Regulation R to govern bank securities activities. Various exemptions permit banks to conduct activities that would otherwise constitute brokerage activities under the securities laws. Those exemptions include conducting brokerage activities related to trust, fiduciary and similar services, certain services and also conducting a de minimis number of riskless principal transactions, certain asset-backed transactions and certain securities lending transactions. The Bancorp only conducts non-exempt brokerage activities through its affiliated registered broker-dealer.

#### *Financial Stability Oversight Council*

The DFA created the Financial Stability Oversight Council ("FSOC"), which is chaired by the Secretary of the Treasury and composed of expertise from various financial services regulators. The FSOC has responsibility for identifying risks and responding to emerging threats to financial stability.

#### *Executive Compensation*

The DFA provides for a say on pay for shareholders of all public companies. Under the DFA, each company must give its shareholders the opportunity to vote on the compensation of its executives at least once every three years. The DFA also adds disclosure and voting requirements for golden parachute compensation that is payable to named executive officers in connection with sale transactions. The SEC adopted rules finalizing these say on pay provisions in January 2011.

Pursuant to the DFA, in June 2012, the SEC adopted a final rule directing the stock exchanges to prohibit listing classes of equity securities if a company's compensation committee members are not independent. The rule also provides that a company's compensation committee may only select a compensation consultant, legal counsel or other advisor after taking into consideration factors to be identified by the SEC that affect the independence of a compensation consultant, legal counsel or other advisor.

The SEC is required under the DFA to issue rules obligating companies to disclose in proxy materials for annual meetings of shareholders information that shows the relationship between executive compensation actually paid to their named executive officers and their financial performance, taking into account any change in the value of the shares of a company's stock and dividends or distributions. The DFA also requires the SEC to propose rules requiring companies to disclose the ratio of the compensation of its chief executive officer to the median compensation of its employees. The SEC adopted final rules implementing the pay ratio provisions in August 2015. For a registrant with a fiscal year ending on December 31, such as Bancorp, the pay ratio will be required as part of its executive compensation disclosure in proxy statements or Form 10-Ks filed starting in 2018.

The DFA provides that the SEC must issue rules directing the stock exchanges to prohibit listing any security of a company unless the company develops and implements a policy providing for disclosure of the policy of the company on incentive-based compensation that is based on financial information required to be reported under the securities laws and that, in the event the company is required to prepare an accounting restatement due to the material noncompliance of the company with any financial reporting requirement under the securities laws, the company will recover from any current or former executive officer of the company who received incentive-based compensation during the three-year period preceding the date on which the company is required to prepare the restatement based on the erroneous data, any exceptional compensation above what would have been paid under the restatement.

The DFA requires the SEC to adopt a rule to require that each company disclose in the proxy materials for its annual meetings whether an employee or board member is permitted to purchase financial instruments designed to hedge or offset decreases in the market value of equity securities granted as compensation or otherwise held by the employee or board member.

In June 2016, the SEC and the federal banking agencies issued a proposed rule to implement the incentive-based compensation provisions of section 956 of the DFA. The proposal would establish new requirements for incentive-based compensation at institutions with assets of at least \$1 billion.

#### *Corporate Governance*

The DFA clarifies that the SEC may, but is not required to promulgate rules that would require that a company's proxy materials include a nominee for the board of directors submitted by a shareholder. Although the SEC promulgated rules to accomplish this, these rules were invalidated by a federal appeals court decision. The SEC has said that they will not challenge the ruling, but has not ruled out the possibility that new rules could be proposed.

The DFA requires stock exchanges to have rules prohibiting their members from voting securities that they do not beneficially own (unless they have received voting instructions from the beneficial owner) with respect to the election of a member of the board of directors (other than an uncontested election of directors of an investment company registered under the Investment Company Act of 1940), executive compensation or any other significant matter, as determined by the SEC by rule.

#### *Debit Card Interchange Fees*

The DFA provides for a set of new rules requiring that interchange transaction fees for electric debit transactions be "reasonable" and proportional to certain costs associated with processing the transactions. The FRB was given authority to, among other things, establish standards for assessing whether interchange fees are reasonable and proportional. In June 2011, the FRB issued a final rule establishing certain standards and prohibitions pursuant to the DFA, including establishing standards for debit card interchange fees and allowing for an upward adjustment if the issuer develops and implements policies and procedures reasonably designed to prevent fraud. The provisions regarding debit card interchange fees and the fraud adjustment became effective October 1, 2011. The rules impose requirements on the Bancorp and its banking subsidiary and may negatively impact our revenues and results of operations. On July 31, 2013, the U.S. District Court for the District of Columbia

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

#### *FDIC Matters and Resolution Planning*

Title II of the DFA creates an orderly liquidation process that the FDIC can employ for failing systemically important financial companies. Additionally, the DFA also codifies many of the temporary changes that had already been implemented, such as permanently increasing the amount of deposit insurance to \$250,000.

In January 2012, the FDIC issued a final rule that requires an insured depository institution with \$50 billion or more in total assets to submit periodic contingency plans to the FDIC for resolution in the event of the institution's failure. The Bancorp's banking subsidiary is subject to this rule and submitted its most recent resolution plan pursuant to this rule as of December 31, 2015.

In October 2011, the FRB and FDIC issued a final rule implementing the resolution planning requirements of Section 165(d) of the DFA. The final rule requires BHCs with assets of \$50 billion or more and nonbank financial firms designated by FSOC for supervision by the FRB to annually submit resolution plans to the FDIC and FRB. Each plan shall describe the company's strategy for rapid and orderly resolution in bankruptcy during times of financial distress. Under the final rule, companies must submit their initial resolution plans on a staggered basis. The Bancorp submitted its most recent resolution plan pursuant to this rule as of December 31, 2015. In August 2016, the FDIC and the FRB announced that 38 firms, including Fifth Third, will be required to submit their next resolutions by December 31, 2017.

#### *Proprietary Trading and Investing in Certain Funds*

The DFA sets forth new restrictions on banking organizations' ability to engage in proprietary trading and sponsors of or invest in private equity and hedge funds (the "Volcker Rule"). The final regulations implementing the Volcker Rule ("Final Rules") were adopted on December 10, 2013. The Volcker Rule generally prohibits any banking entity from (i) engaging in short-term proprietary trading for its own account and (ii) sponsoring or

acquiring any ownership interest in a private equity or hedge fund. The Volcker Rule and Final Rules contain a number of exceptions. The Volcker Rule permits transactions in the securities of the U.S. government and its agencies, certain government-sponsored enterprises and states and their political subdivisions, as well as certain investments in small business investment companies. Transactions on behalf of customers and in connection with certain underwriting and market making activities, as well as risk-mitigating hedging activities and certain foreign banking activities are also permitted. The Final Rules exclude certain funds from the prohibition on fund ownership and sponsorship including wholly-owned subsidiaries, joint ventures, and acquisitions vehicles, as well as SEC registered investment companies. *De minimis* ownership of private equity or hedge funds is also permitted under the Final Rules. In addition to the general prohibition on sponsorship and investment, the Volcker rule contains additional requirements applicable to any private equity or hedge fund that is sponsored by the banking entity or for which it serves as investment manager or investment advisor. The Bancorp is required under the Final Rules to demonstrate that it has a Volcker Rule compliance program. Further, with respect to covered funds that are "illiquid funds", the FRB has the authority to grant up to five more years for the Bancorp to conform to the final Volcker Rule with respect to such illiquid funds.

#### *Derivatives*

Title VII of the DFA includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, imposing new capital and margin requirements for certain market participants and imposing position limits on certain over-the-counter derivatives. Fifth Third Bank is provisionally registered with the Commodity Futures Trading Commission as a swap dealer. As with the Volcker Rule, the Bank is required to demonstrate that it has a satisfactory compliance program to monitor its activities under these regulations. Certain regulations implementing Title VII of the DFA have not been finalized. The ultimate impact of these regulations, and the time it will take to comply, continues to remain uncertain. The final regulations may impose additional operational and compliance costs on us and may require us to restructure certain businesses and negatively impact our revenues and results of operations.

#### *Future Legislative and Regulatory Initiatives*

Federal and state legislators as well as regulatory agencies may introduce or enact new laws and rules, or amend existing laws and rules, that may affect the regulation of financial institutions and their holding companies. The impact of any future legislative or regulatory changes cannot be predicted. However, such changes could affect Bancorp's business, financial condition and results of operations.



## ITEM 1A. RISK FACTORS

The risks listed below present risks that could have a material impact on the Bancorp's financial condition, the results of its operations, or its business. Some of these risks are interrelated, and the occurrence of one or more of them may exacerbate the effect of others.

### RISKS RELATING TO ECONOMIC AND MARKET CONDITIONS

*Weakness in the U.S. economy, including within Fifth Third's geographic footprint, has adversely affected Fifth Third in the past and may adversely affect Fifth Third in the future.*

If the strength of the U.S. economy in general or the strength of the local economies in which Fifth Third conducts operations declines, this could result in, among other things, a decreased demand for Fifth Third's products and services, a deterioration in credit quality or a reduced demand for credit, including a resultant effect on Fifth Third's loan portfolio and ALLL and in the receipt of lower proceeds from the sale of loans and foreclosed properties. These factors could result in higher delinquencies, greater charge-offs and increased losses in future periods, which could materially adversely affect Fifth Third's financial condition and results of operations.

*Global financial conditions could hamper economic recovery or contribute to recessionary economic conditions and severe stress in the financial markets, including in the United States. Should the U.S. economy be adversely impacted by these factors, the likelihood for loan and asset growth at U.S. financial institutions, like Fifth Third, may deteriorate.*

The global financial markets continue to be strained as a result of economic slowdowns, geopolitical concerns and the related path of commodity prices and interest rates. Divergence in economic growth in the U.S. and international economies and the resulting differences in monetary policy are placing strains on financial markets and strengthening the U.S. dollar. The relative strength of the U.S. dollar may continue to negatively impact the U.S. manufacturing sector. These factors could negatively impact the U.S. economy and affect the stability of global financial markets.

*Changes in interest rates could affect Fifth Third's income and cash flows.*

Fifth Third's income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond Fifth Third's control, including general economic conditions in the U.S. or abroad and the policies of various governmental and regulatory agencies (in particular, the FRB). Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding. The impact of these changes may be magnified if Fifth Third does not effectively manage the relative sensitivity of its assets and liabilities to changes in market interest rates. Fluctuations in these areas may adversely affect Fifth Third and its shareholders.

*Changes and trends in the capital markets may affect Fifth Third's income and cash flows.*

Fifth Third enters into and maintains trading and investment positions in the capital markets on its own behalf and manages investment positions on behalf of its customers. These investment positions include derivative financial instruments. The revenues and profits Fifth Third derives from managing proprietary and customer trading and investment positions are dependent on market prices. Market changes and trends may result in a decline in wealth and asset management revenue or investment or trading losses that may impact Fifth Third. Losses on behalf of its customers could expose Fifth Third to litigation, credit risks or loss of revenue from those clients and customers. Additionally, losses in Fifth Third's trading and investment positions could lead to a loss with respect to those investments and may adversely affect Fifth Third's income, cash flows and funding costs.

*Problems encountered by financial institutions larger than or similar to Fifth Third could adversely affect financial markets generally and have direct and indirect adverse effects on Fifth Third.*

Fifth Third has exposure to counterparties in the financial services industry and other industries, and routinely executes transactions with such counterparties, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of Fifth Third's transactions with other financial institutions expose Fifth Third to credit risk in the event of default of a counterparty or client. In addition, Fifth Third's credit risk may be affected when the collateral it holds cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure. The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Bancorp interacts on a daily basis, and therefore could adversely affect Fifth Third.

*Fifth Third's stock price is volatile.*

Fifth Third's stock price has been volatile in the past and several factors could cause the price to fluctuate substantially in the future. These factors include, without limitation:

- Actual or anticipated variations in earnings;
- Changes in analysts' recommendations or projections;
- Fifth Third's announcements of developments related to its businesses;
- Operating and stock performance of other companies deemed to be peers;
- Actions by government regulators and changes in the regulatory regime;
- New technology used or services offered by traditional and non-traditional competitors;
- News reports of trends, concerns and other issues related to the financial services industry;
- U.S. and global economic conditions;
- Natural disasters;

- Geopolitical conditions such as acts or threats of terrorism, military conflicts and withdrawal from the EU by the U.K. or other EU members.

The price for shares of Fifth Third's common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to Fifth Third's performance. General market price declines or market volatility in the future could adversely affect the price for shares of Fifth Third's common stock, and the current market price of such shares may not be indicative of future market prices.

## **RISKS RELATING TO FIFTH THIRD'S GENERAL BUSINESS**

***Changes in retail distribution strategies and consumer behavior may adversely impact Fifth Third's investments in its bank premises and equipment and other assets and may lead to increased expenditures to change its retail distribution channel.***

Fifth Third has significant investments in bank premises and equipment for its branch network including its 1,191 full-service banking centers, 50 parcels of land held for the development of future banking centers and 10 properties that are developed or in the process of being developed as branches, as well as its retail work force and other branch banking assets. Advances in technology such as e-commerce, telephone, internet and mobile banking, and in-branch self-service technologies including automatic teller machines and other equipment, as well as changing customer preferences for these other methods of accessing Fifth Third's products and services, could affect the value of Fifth Third's branch network or other retail distribution assets and may cause it to change its retail distribution strategy, close and/or sell certain branches or parcels of land held for development and restructure or reduce its remaining branches and work force. Further advances in technology and/or changes in customer preferences could have additional changes in Fifth Third's retail distribution strategy and/or branch network. These actions could lead to losses on these assets or could adversely impact the carrying value of other long-lived assets and may lead to increased expenditures to renovate and reconfigure remaining branches or to otherwise reform its retail distribution channel.

***Deteriorating credit quality has adversely impacted Fifth Third in the past and may adversely impact Fifth Third in the future.***

When Fifth Third lends money or commits to lend money the Bancorp incurs credit risk or the risk of loss if borrowers do not repay their loans. The credit performance of the loan portfolios significantly affects the Bancorp's financial results and condition. If the current economic environment were to deteriorate, more customers may have difficulty in repaying their loans or other obligations which could result in a higher level of credit losses and reserves for credit losses. Fifth Third reserves for credit losses by establishing reserves through a charge to earnings. The amount of these reserves is based on Fifth Third's assessment of credit losses inherent in the loan portfolio including unfunded credit commitments. The process for determining the amount of the ALLL and the reserve for unfunded commitments is critical to Fifth Third's financial results and condition. It requires difficult, subjective and complex judgments about the environment, including analysis of economic or market conditions that might impair the ability of borrowers to repay their loans.

Fifth Third might underestimate the credit losses inherent in its loan portfolio and have credit losses in excess of the amount reserved. Fifth Third might increase the reserve because of

changing economic conditions, including falling home prices or higher unemployment, or other factors such as changes in borrower's behavior. As an example, borrowers may "strategically default," or discontinue making payments on their real estate-secured loans if the value of the real estate is less than what they owe, even if they are still financially able to make the payments.

Fifth Third believes that both the ALLL and the reserve for unfunded commitments are adequate to cover inherent losses at December 31, 2016; however, there is no assurance that they will be sufficient to cover future credit losses, especially if housing and employment conditions decline. In the event of significant deterioration in economic conditions, Fifth Third may be required to increase reserves in future periods, which would reduce earnings.

For more information, refer to the Credit Risk Management subsection of the Risk Management section of MD&A and the Allowance for Loan and Losses and Reserve for Unfunded Commitments subsections of the Critical Accounting Policies section of MD&A.

***Fifth Third must maintain adequate sources of funding and liquidity.***

Fifth Third must maintain adequate funding sources in the normal course of business to support its operations and fund outstanding liabilities, as well as meet regulatory expectations. Fifth Third primarily relies on bank deposits to be a low cost and stable source of funding for the loans Fifth Third makes and the operations of Fifth Third's business. Core deposits, which include transaction deposits and other time deposits, have historically provided Fifth Third with a sizeable source of relatively stable and low-cost funds (average core deposits funded 70% of average total assets at December 31, 2016). In addition to customer deposits, sources of liquidity include investments in the securities portfolio, Fifth Third's sale or securitization of loans in secondary markets and the pledging of loans and investment securities to access secured borrowing facilities through the FHLB and the FRB, and Fifth Third's ability to raise funds in domestic and international money and capital markets.

Fifth Third's liquidity and ability to fund and run the business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and volatility or a lack of market or customer confidence in financial markets in general similar to what occurred during the financial crisis in 2008 and early 2009, which may result in a loss of customer deposits or outflows of cash or collateral and/or ability to access capital markets on favorable terms.

Other conditions and factors that could materially adversely affect Fifth Third's liquidity and funding include:

- a lack of market or customer confidence in Fifth Third or negative news about Fifth Third or the financial services industry generally, which also may result in a loss of deposits and/or negatively affect the ability to access the capital markets;
- the loss of customer deposits to alternative investments;
- inability to sell or securitize loans or other assets,
- increased regulatory requirements,
- and reductions in one or more of Fifth Third's credit ratings.

A reduced credit rating could adversely affect Fifth Third's ability to borrow funds and raise the cost of borrowings substantially and could cause creditors and business

counterparties to raise collateral requirements or take other actions that could adversely affect Fifth Third's ability to raise capital. Many of the above conditions and factors may be caused by events over which Fifth Third has little or no control such as what occurred during the financial crisis. While market conditions have stabilized and, in many cases, improved, there can be no assurance that significant disruption and volatility in the financial markets will not occur in the future.

Recent regulatory changes relating to liquidity and risk management may also negatively impact Fifth Third's results of operations and competitive position. Various regulations recently adopted or proposed, and additional regulations under consideration, impose or could impose more stringent liquidity requirements for large financial institutions, including Fifth Third. These regulations address, among other matters, liquidity stress testing, minimum liquidity requirements and restrictions on short-term debt issued by top-tier holding companies. Given the overlap and complex interactions of these regulations with other regulatory changes, including the resolution and recovery framework applicable to Fifth Third, the full impact of the adopted and proposed regulations will remain uncertain until their full implementation. It is also uncertain whether adopted and proposed regulations will ultimately be rolled back or modified as a result of the change in administration in the U.S. Uncertainty about the timing and scope of any such changes as well as the cost of complying with a new regulatory regime may negatively impact Fifth Third's business.

If Fifth Third is unable to continue to fund assets through customer bank deposits or access capital markets on favorable terms or if Fifth Third suffers an increase in borrowing costs or otherwise fails to manage liquidity effectively, then Fifth Third's liquidity, operating margins, and financial results and condition may be materially adversely affected. As Fifth Third did during the financial crisis, it may also need to raise additional capital through the issuance of stock, which could dilute the ownership of existing stockholders, or reduce or even eliminate common stock dividends to preserve capital.

***Fifth Third may have more credit risk and higher credit losses to the extent loans are concentrated by location or industry of the borrowers or collateral.***

Fifth Third's credit risk and credit losses can increase if its loans are concentrated to borrowers engaged in the same or similar activities or to borrowers who as a group may be uniquely or disproportionately affected by economic or market conditions. Deterioration in economic conditions, housing conditions and commodity and real estate values in certain states or locations could result in materially higher credit losses if loans are concentrated in those locations. Fifth Third has significant exposures to businesses in certain economic sectors such as manufacturing, real estate, financial services and insurance and weaknesses in those businesses may adversely impact Fifth Third's business, results of operations or financial condition. Additionally Fifth Third has a substantial portfolio of commercial and residential real estate loans and weaknesses in residential or commercial real estate markets may adversely impact Fifth Third's business, results of operations or financial condition.

***Fifth Third may be required to repurchase residential mortgage loans or reimburse investors and others as a result of breaches in contractual representations and warranties.***

Fifth Third sells residential mortgage loans to various parties, including GSEs and other financial institutions that purchase

residential mortgage loans for investment or private label securitization. Fifth Third may be required to repurchase residential mortgage loans, indemnify the securitization trust, investor or insurer, or reimburse the securitization trust, investor or insurer for credit losses incurred on loans in the event of a breach of contractual representations or warranties that is not remedied within a specified period (usually 60 days or less) after Fifth Third receives notice of the breach. Contracts for residential mortgage loan sales to the GSEs include various types of specific remedies and penalties that could be applied to inadequate responses to repurchase requests. If economic conditions and the housing market deteriorate or future investor repurchase demand and Fifth Third's success at appealing repurchase requests differ from past experience, Fifth Third could have increased repurchase obligations and increased loss severity on repurchases, requiring material additions to the repurchase reserve.

***If Fifth Third does not respond to rapid changes in the financial services industry or otherwise adapt to changing customer preferences, its financial performance may suffer.***

Fifth Third's ability to deliver strong financial performance and returns on investment to shareholders will depend in part on its ability to expand the scope of available financial services to meet the needs and demands of its customers. In addition to the challenge of competing against other banks in attracting and retaining customers for traditional banking services, Fifth Third's competitors also include securities dealers, brokers, mortgage bankers, investment advisors, and specialty finance, telecommunications, technology and insurance companies who seek to offer one-stop financial services that may include services that banks have not been able or allowed to offer to their customers in the past or may not be currently able or allowed to offer.

This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, as well as the accelerating pace of consolidation among financial service providers. Rapidly changing technology and consumer preferences may require Fifth Third to effectively implement new technology-driven products and services in order to compete and meet customer demands. Fifth Third may not be able to do so or be successful in marketing these products and services to its customers. As a result, Fifth Third's ability to effectively compete to retain or acquire new business may be impaired, and its business, financial condition or results of operations, may be adversely affected.

Fifth Third may make strategic investments and may expand an existing line of business or enter into new lines of business to remain competitive. If Fifth Third's chosen strategies, for example, the NorthStar Strategy initiatives, are not appropriate to effectively compete or Fifth Third does not execute them in an appropriate or timely manner, Fifth Third's business and results may suffer. Additionally, these strategies, products and lines of business may bring with them unforeseeable or unforeseen risks and may not generate the expected results or returns, which could adversely affect Fifth Third's results of operations or future growth prospects and cause Fifth Third to fail to meet its stated goals and expectations.

***Fifth Third may not be able to successfully implement future information technology system enhancements, which could adversely affect Fifth Third's business operations and profitability.***

Fifth Third invests significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. Fifth Third may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and result in reputational harm and have other negative effects. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations. Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact Fifth Third's financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, Fifth Third may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

***If Fifth Third is unable to grow its deposits, it may be subject to paying higher funding costs.***

The total amount that Fifth Third pays for funding costs is dependent, in part, on Fifth Third's ability to grow its deposits. If Fifth Third is unable to sufficiently grow its deposits to meet liquidity objectives, it may be subject to paying higher funding costs. Fifth Third competes with banks and other financial services companies for deposits. If competitors raise the rates they pay on deposits, Fifth Third's funding costs may increase, either because Fifth Third raises rates to avoid losing deposits or because Fifth Third loses deposits and must rely on more expensive sources of funding. Higher funding costs reduce Fifth Third's net interest margin and net interest income. Fifth Third's bank customers could take their money out of the Bank and put it in alternative investments, causing Fifth Third to lose a lower cost source of funding. Checking and savings account balances and other forms of customer deposits may decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff.

***The Bancorp's ability to receive dividends from its subsidiaries accounts for most of its revenue and could affect its liquidity and ability to pay dividends.***

Fifth Third Bancorp is a separate and distinct legal entity from its subsidiaries. Fifth Third Bancorp typically receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on Fifth Third Bancorp's stock and interest and principal on its debt. Various federal and/or state laws and regulations, as well as regulatory expectations, limit the amount of dividends that the Bancorp's banking subsidiary and certain nonbank subsidiaries may pay. Regulatory scrutiny of capital levels at bank holding companies and insured depository institution subsidiaries has increased since the financial crisis and has resulted in increased regulatory focus on all aspects of capital planning, including dividends and other distributions to shareholders of banks such as the parent bank holding companies. Also, Fifth Third Bancorp's

right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of that subsidiary's creditors. Limitations on the Bancorp's ability to receive dividends from its subsidiaries could have a material adverse effect on its liquidity and ability to pay dividends on stock or interest and principal on its debt. For further information refer to Note 3 of the Notes to Consolidated Financial Statements.

***The financial services industry is highly competitive and creates competitive pressures that could adversely affect Fifth Third's revenue and profitability.***

The financial services industry in which Fifth Third operates is highly competitive. Fifth Third competes not only with commercial banks, but also with insurance companies, mutual funds, hedge funds, telecommunications and technology and other companies offering financial services in the U.S., globally and over the internet. Fifth Third competes on the basis of several factors, including capital, access to capital, revenue generation, products, services, transaction execution, innovation, reputation and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms. These developments could result in Fifth Third's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. Fifth Third may experience pricing pressures as a result of these factors and as some of its competitors seek to increase market share by reducing prices.

***Fifth Third and/or the holders of its securities could be adversely affected by unfavorable ratings from rating agencies.***

Fifth Third's ability to access the capital markets is important to its overall funding profile. This access is affected by the ratings assigned by rating agencies to Fifth Third, certain of its subsidiaries and particular classes of securities they issue. The interest rates that Fifth Third pays on its securities are also influenced by, among other things, the credit ratings that it, its subsidiaries and/or its securities receive from recognized rating agencies. A downgrade to Fifth Third or its subsidiaries' credit rating could affect its ability to access the capital markets, increase its borrowing costs and negatively impact its profitability. A ratings downgrade to Fifth Third, its subsidiaries or their securities could also create obligations or liabilities of Fifth Third under the terms of its outstanding securities that could increase Fifth Third's costs or otherwise have a negative effect on its results of operations or financial condition. Additionally, a downgrade of the credit rating of any particular security issued by Fifth Third or its subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

***Fifth Third could suffer if it fails to attract and retain skilled personnel.***

Fifth Third's success depends, in large part, on its ability to attract and retain key individuals. Competition for qualified candidates in the activities and markets that Fifth Third serves is intense, which may increase Fifth Third's expenses and may result in Fifth Third not being able to hire candidates or retain them. If Fifth Third is not able to hire qualified candidates or retain its key personnel, Fifth Third may be unable to execute its business strategies and may suffer adverse consequences to its business, operations and financial condition.

Compensation paid by financial institutions such as Fifth Third has become increasingly regulated, particularly under the DFA, which regulation affects the amount and form of compensation Fifth Third pays to hire and retain talented employees. If Fifth Third is unable to attract and retain qualified employees, or do so at rates necessary to maintain its competitive position, or if compensation costs required to attract and retain employees become more expensive, Fifth Third's performance, including its competitive position, could be materially adversely affected.

***Fifth Third's mortgage banking revenue can be volatile from quarter to quarter.***

Fifth Third earns revenue from the fees it receives for originating mortgage loans and for servicing mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue Fifth Third receives from loan originations. At the same time, revenue from MSR's can increase through increases in fair value. When rates fall, mortgage originations tend to increase and the value of MSR's tends to decline, also with some offsetting revenue effect. Even though the origination of mortgage loans can act as a "natural hedge," the hedge is not perfect, either in amount or timing. For example, the negative effect on revenue from a decrease in the fair value of residential MSR's is immediate, but any offsetting revenue benefit from more originations and the MSR's relating to the new loans would accrue over time. It is also possible that even if interest rates were to fall, mortgage originations may also fall or any increase in mortgage originations may not be enough to offset the decrease in the MSR's value caused by the lower rates.

Fifth Third typically uses derivatives and other instruments to hedge its mortgage banking interest rate risk. Fifth Third generally does not hedge all of its risks, and the fact that Fifth Third attempts to hedge any of the risks does not mean Fifth Third will be successful. Hedging is a complex process, requiring sophisticated models and constant monitoring. Fifth Third may use hedging instruments tied to U.S. Treasury rates, LIBOR or Eurodollars that may not perfectly correlate with the value or income being hedged. Fifth Third could incur significant losses from its hedging activities. There may be periods where Fifth Third elects not to use derivatives and other instruments to hedge mortgage banking interest rate risk.

***Fifth Third uses models for business planning purposes that may not adequately predict future results.***

Fifth Third uses financial models to aid in its planning for various purposes including its capital and liquidity needs and other purposes. The models used may not accurately account for all variables and may fail to predict outcomes accurately and/or may overstate or understate certain effects. As a result of these potential failures, Fifth Third may not adequately prepare for future events and may suffer losses or other setbacks due to these failures.

Also, information Fifth Third provides to the public or to its regulators based on models could be inaccurate or misleading due to inadequate design or implementation, for example. Decisions that its regulators make, including those related to capital distributions to its shareholders, could be affected adversely due to the perception that the models used to generate the relevant information are unreliable or inadequate.

***Changes in interest rates could also reduce the value of MSR's.***

Fifth Third acquires MSR's when it keeps the servicing rights after the sale or securitization of the loans that have been originated or when it purchases the servicing rights to mortgage loans originated by other lenders. Fifth Third initially measures all residential MSR's at fair value and subsequently amortizes the MSR's in proportion to, and over the period of, estimated net servicing income. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and other-than-temporary impairment recognized through a write-off of the servicing asset and related valuation allowance.

Changes in interest rates can affect prepayment assumptions and thus fair value. When interest rates fall, borrowers are usually more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of MSR's can decrease. Each quarter Fifth Third evaluates the fair value of MSR's, and decreases in fair value of MSR's below amortized cost reduce earnings in the period in which the decrease occurs.

***The preparation of financial statements requires Fifth Third to make subjective determinations and use estimates that may vary from actual results and materially impact its results of operations or financial position.***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make significant estimates that affect the financial statements. If new information arises that results in a material change to a reserve amount, such a change could result in a change to previously announced financial results. Refer to the Critical Accounting Policies section of MD&A for more information regarding management's significant estimates.

***Changes in accounting standards or interpretations could impact Fifth Third's reported earnings and financial condition.***

The accounting standard setters, including the FASB, the SEC and other regulatory agencies, periodically change the financial accounting and reporting standards that govern the preparation of Fifth Third's consolidated financial statements. These changes can be hard to predict and can materially impact how Fifth Third records and reports its financial condition and results of operations. In some cases, Fifth Third could be required to apply a new or revised standard retroactively, which would result in the recasting of Fifth Third's prior period financial statements.

***Future acquisitions may dilute current shareholders' ownership of Fifth Third and may cause Fifth Third to become more susceptible to adverse economic events.***

Future business acquisitions could be material to Fifth Third and it may issue additional shares of stock to pay for those acquisitions, which would dilute current shareholders' ownership interests. Acquisitions also could require Fifth Third to use substantial cash or other liquid assets or to incur debt. In those events, Fifth Third could become more susceptible to economic downturns and competitive pressures.

***Difficulties in identifying suitable opportunities or combining the operations of acquired entities or assets with Fifth Third's own operations or assessing the effectiveness of businesses in which we make strategic investments or with which we enter into strategic contractual relationships may prevent Fifth Third from achieving the expected benefits from these acquisitions, investments or relationships.***

Inherent uncertainties exist when assessing or integrating the operations of an acquired business or investment or relationship opportunity. Fifth Third may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition or strategic relationship. In addition, the markets and industries in which Fifth Third and its potential acquisition and investment targets operate are highly competitive. Acquisition or investment targets may lose customers or otherwise perform poorly or unprofitably, in the case of an acquired business or strategic relationship, cause Fifth Third to lose customers or perform poorly or unprofitably. Future acquisition and integration activities and efforts to monitor new investments or reap the benefits of a new strategic relationship may require Fifth Third to devote substantial time and resources and may cause these acquisitions, investments and relationships to be unprofitable or cause Fifth Third to be unable to pursue other business opportunities.

After completing an acquisition, Fifth Third may find certain items were not accounted for properly in accordance with financial accounting and reporting standards. Fifth Third may also not realize the expected benefits of the acquisition due to lower financial results pertaining to the acquired entity or assets. For example, Fifth Third could experience higher charge-offs than originally anticipated related to the acquired loan portfolio. Additionally, acquired companies or businesses may increase Fifth Third's risk of regulatory action or restrictions related to the operations of the acquired business.

***Fifth Third may sell or consider selling one or more of its businesses. Should it determine to sell such a business, it may not be able to generate gains on sale or related increase in shareholders' equity commensurate with desirable levels. Moreover, if Fifth Third sold such businesses, the loss of income could have an adverse effect on its earnings and future growth.***

Fifth Third owns, or owns a minority stake in, as applicable, several non-strategic businesses and other assets that are not significantly synergistic with its core financial services businesses or may no longer be aligned with Fifth Third's strategic plans. Fifth Third has, from time to time, considered and undertaken (and, in the case of Vantiv, has announced its intention to continue) the sale of such businesses and/or interests, including, for example, portions of Fifth Third's stake in Vantiv Holding, LLC. If it were to determine to sell such businesses and/or interests, Fifth Third would be subject to market forces that may make completion of a sale unsuccessful or may not be able to do so within a desirable time frame. If Fifth Third were to complete the sale of any of its businesses and/or interests in third parties, it would lose the income from the sold businesses and/or interests, including those accounted for under the equity method of accounting, and such loss of income could have an adverse effect on its future earnings and growth. Additionally, Fifth Third may encounter difficulties in separating the operations of any businesses it sells, which may affect its business or results of operations.

***Fifth Third relies on its systems and certain third party service providers, and certain failures could materially adversely affect operations.***

Fifth Third collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both Fifth Third and third party service providers. Fifth Third has security, backup and recovery systems in place, as well as a business continuity plan to ensure the systems will not be inoperable. Fifth Third also has security to prevent unauthorized access to the systems. In addition, Fifth Third requires its third party service providers to maintain similar controls. However, Fifth Third cannot be certain that the measures will be successful. A security breach in the systems and loss of confidential information such as credit card numbers and related information could result in significant reputational harm and the loss of customers' confidence in Fifth Third. As a result, we may lose existing and new customers and incur significant costs, including privacy monitoring activities.

Fifth Third's necessary dependence upon automated systems to record and process its transaction volume poses the risk that technical system flaws or employee errors, tampering or manipulation of those systems will result in losses and may be difficult to detect. Fifth Third may also be subject to disruptions of its operating systems arising from events that are beyond its control (for example, computer viruses or electrical or telecommunications outages).

Third parties with which the Bancorp does business, as well as retailers and other third parties with which the Bancorp's customers do business, can also be sources of operational risk to the Bancorp, particularly where activities of customers are beyond the Bancorp's security and control systems, such as through the use of the internet, personal computers, tablets, smart phones and other mobile services. Security breaches affecting the Bancorp's customers, or systems breakdowns or failures, security breaches or employee misconduct affecting such other third parties, may require the Bancorp to take steps to protect the integrity of its own operational systems or to safeguard confidential information of the Bancorp or its customers, thereby increasing the Bancorp's operational costs and potentially diminishing customer satisfaction. If personal, confidential or proprietary information of customers or clients in the Bancorp's possession were to be mishandled or misused, the Bancorp could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include circumstances where, for example, such information was erroneously provided to parties who are not permitted to have the information, either through the fault of the Bancorp's systems, employees or counterparties, or where such information was intercepted or otherwise compromised by third parties. The Bancorp may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond the Bancorp's control, which may include, for example, security breaches; electrical or telecommunications outages; failures of computer servers or other damage to the Bancorp's property or assets; natural disasters or severe weather conditions; health emergencies; or events arising from local or larger-scale political events, including outbreaks of hostilities or terrorist acts. While the Bancorp believes that its current resiliency plans are both sufficient and adequate, there can be no assurance that such plans will fully mitigate all potential business continuity risks to the Bancorp or its customers and clients. Any failures or disruptions of the Bancorp's systems or operations could give rise to losses in service to customers and clients, adversely affect the Bancorp's

business and results of operations by subjecting the Bancorp to losses or liability, or require the Bancorp to expend significant resources to correct the failure or disruption, as well as by exposing the Bancorp to reputational harm, litigation, regulatory fines or penalties or losses not covered by insurance.

***Fifth Third is exposed to cyber-security risks, including denial of service, hacking, and identity theft, which could result in the disclosure, theft or destruction of confidential information.***

Fifth Third relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in disruptions to its accounting, deposit, loan and other systems, and adversely affect its customer relationships. While Fifth Third has policies and procedures designed to prevent or limit the effect of these possible events, there can be no assurance that any such failure, interruption or security breach will not occur or, if any does occur, that it can be sufficiently remediated. There have been increasing efforts on the part of third parties, including through cyber-attacks, to breach data security at financial institutions or with respect to financial transactions. There have been several recent instances involving financial services and consumer-based companies reporting the unauthorized disclosure of client or customer information or the destruction or theft of corporate data, by both private individuals and foreign governments. In addition, because the techniques used to cause such security breaches change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, Fifth Third may be unable to proactively address these techniques or to implement adequate preventative measures. Furthermore, there has been a well-publicized series of apparently related distributed denial of service attacks on large financial services companies, including Fifth Third Bank, and “ransom” attacks where hackers have requested payments in exchange for not disclosing customer information. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. These events adversely affected the performance of Fifth Third’s website and in some instances prevented customers from accessing Fifth Third’s website. Future cyber-attacks could be more disruptive and damaging. Cyber threats are rapidly evolving and Fifth Third may not be able to anticipate or prevent all such attacks. Fifth Third may incur increasing costs in an effort to minimize these risks or in the investigation of such cyber-attacks or related to the protection of the Bancorp’s customers from identity theft as a result of such attacks. Despite this effort, the occurrence of any failure, interruption or security breach of Fifth Third’s systems or third-party service providers, particularly if widespread or resulting in financial losses to customers, could also seriously damage Fifth Third’s reputation, result in a loss of customer business, subject it to additional regulatory scrutiny, or expose it to civil litigation and financial liability.

***Fifth Third is exposed to operational and reputational risk.***

Fifth Third is exposed to many types of operational risk, including but not limited to, business continuity risk, information management risk, fraud risk, model risk, third party service provider risk, human resources risk, and process risk.

Fifth Third’s actual or alleged conduct in activities, such as lending practices, data security, corporate governance and acquisitions, may result in negative public opinion and may

damage Fifth Third’s reputation. Actions taken by government regulators and community organizations may also damage Fifth Third’s reputation. Additionally, whereas negative public opinion once was primarily driven by adverse news coverage in traditional media, the advent and expansion of social media facilitates the rapid dissemination of information. Though Fifth Third monitors social media channels, the potential remains for rapid and widespread dissemination of inaccurate, misleading or false information that could damage Fifth Third’s reputation. Negative public opinion can adversely affect Fifth Third’s ability to attract and keep customers and can increase the risk that it will be a target of litigation and regulatory action.

***Fifth Third’s framework for managing risks may not be effective in mitigating its risk and loss.***

Fifth Third’s risk management framework seeks to mitigate risk and loss. Fifth Third has established processes and procedures intended to identify, measure, monitor, report, and analyze the types of risk to which it is subject, including liquidity risk, credit risk, market risk, interest rate risk, compliance risk, strategic risk, reputational risk, and operational risk related to its employees, systems and vendors, among others. Any system of control and any system to reduce risk exposure, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. A failure in Fifth Third’s internal controls could have a significant negative impact not only on its earnings, but also on the perception that customers, regulators and investors may have of Fifth Third. Fifth Third continues to devote a significant amount of effort, time and resources to improving its controls and ensuring compliance with complex regulations.

Additionally, instruments, systems and strategies used to hedge or otherwise manage exposure to various types of market compliance, credit, liquidity, operational and business risks and enterprise-wide risk could be less effective than anticipated. As a result, Fifth Third may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk. If Fifth Third’s risk management framework proves ineffective, Fifth Third could incur litigation, negative regulatory consequences, reputational damages among other adverse consequences and Fifth Third could suffer unexpected losses that may affect its financial condition or results of operations.

***The results of Vantiv Holding, LLC could have a negative impact on Fifth Third’s operating results and financial condition.***

In 2009, Fifth Third sold an approximate 51% interest in its processing business, Vantiv Holding, LLC (formerly Fifth Third Processing Solutions). As a result of additional share sales completed by Fifth Third in 2013, 2014, 2015 and 2016, the Bancorp ownership share in Vantiv Holding, LLC as of December 31, 2016, is approximately 18%. The Bancorp’s investment in Vantiv Holding, LLC is currently accounted for under the equity method of accounting and is not consolidated based on Fifth Third’s remaining ownership share in Vantiv Holding, LLC. Vantiv Holding, LLC’s operating results could be poor and could negatively affect the operating results of Fifth Third. In addition, Fifth Third participates in a multi-lender credit facility to Vantiv Holding, LLC and repayment of these loans is contingent on the future cash flows of Vantiv Holding, LLC, which are subject to their own risks and uncertainties.

***Changes in Fifth Third's ownership in Vantiv Holding, LLC could have an impact on Fifth Third's stock price, operating results, financial condition, and future outlook.***

Fifth Third expects that it will reduce its equity investments in Vantiv Holding, LLC and its publicly traded parent, Vantiv, Inc., in whole or in part, but there can be no assurance that such sales will occur or as to when they will occur or the value that might be received by Fifth Third. A reduction in Fifth Third's Vantiv ownership interest may result from a series of sale transactions similar to transactions in Vantiv securities engaged in by Fifth Third to date, or could occur as a result of one or more larger transactions, depending on strategic considerations, market conditions, or other factors deemed important by Fifth Third. Additionally, Fifth Third's ownership in Vantiv could be affected by transactions that Vantiv may undertake. The nature, terms, and timing of transactions engaged in by Vantiv may not be entirely within Fifth Third's control, if at all. If and when Fifth Third's ownership in Vantiv is reduced, such changes in ownership could have a material impact, positive or negative, on Fifth Third's stock price, operating results, financial condition and future outlook.

***Weather related events or other natural disasters may have an effect on the performance of Fifth Third's loan portfolios, especially in its coastal markets, thereby adversely impacting its results of operations.***

Fifth Third's footprint stretches from the upper Midwestern to lower Southeastern regions of the United States. These regions have experienced weather events including hurricanes and other natural disasters. The nature and level of these events and the impact of global climate change upon their frequency and severity cannot be predicted. If large scale events occur, they may significantly impact its loan portfolios by damaging properties pledged as collateral as well as impairing its borrowers' ability to repay their loans.

**RISKS RELATED TO THE LEGAL AND REGULATORY ENVIRONMENT**

***As a regulated entity, the Bancorp is subject to certain capital requirements that may limit its operations and potential growth.***

The Bancorp is a bank holding company and a financial holding company. As such, it is subject to the comprehensive, consolidated supervision and regulation of the FRB, including risk-based and leverage capital requirements, investment practices, dividend policy and growth. The Bancorp must maintain certain risk-based and leverage capital ratios as required by the FRB which can change depending upon general economic conditions and the Bancorp's particular condition, risk profile and growth plans. Compliance with the capital requirements, including leverage ratios, may limit operations that require the intensive use of capital and could adversely affect the Bancorp's ability to expand or maintain present business levels.

U.S. federal banking agencies' capital rules implementing Basel III became effective for the Bancorp on January 1, 2015, subject to phase-in periods for certain components and other provisions. The need to maintain more and higher quality capital as well as greater liquidity could limit Fifth Third's business activities, including lending, and the ability to expand, either organically or through acquisitions. Moreover, although the capital requirements are being phased in over time, U.S. federal banking agencies take into account expectations regarding the ability of banks to meet the capital requirements, including under

stressed conditions, in approving actions that represent uses of capital, such as dividend increases and share repurchases.

Failure by the Bancorp's banking subsidiary to meet applicable capital requirements could subject the Bank to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital, and the termination of deposit insurance by the FDIC.

***Fifth Third's business, financial condition and results of operations could be adversely affected by new or changed regulations and by the manner in which such regulations are applied by regulatory authorities.***

Previous economic conditions, particularly in the financial markets, have resulted in government regulatory agencies placing increased focus and scrutiny on the financial services industry. The U.S. government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis, by introducing various actions and passing legislation such as the DFA. Such programs and legislation subject Fifth Third and other financial institutions to restrictions, oversight and/or costs that may have an impact on Fifth Third's business, financial condition, results of operations or the price of its common stock.

Although there is uncertainty regarding whether the programs implemented and the legislation passed following the financial crisis will remain in place or be modified or repealed under the new administration in the U.S., any new proposals for legislation and regulations introduced could further substantially increase compliance costs in the financial services industry. In addition, changes to laws and regulations could have a negatively impact in the short term even if the longer-term impact of those changes may be expected to be positive for Fifth Third. Fifth Third cannot predict whether any pending or future legislation will be adopted or the substance and impact of any such new legislation on Fifth Third. Changes in regulation could affect Fifth Third in a substantial way and could have an adverse effect on its business, financial condition and results of operations.

***Fifth Third is subject to various regulatory requirements that may limit its operations and potential growth.***

Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions and their holding companies, the FRB, the FDIC, the CFPB and the Ohio Division of Financial Institutions have the authority to compel or restrict certain actions by Fifth Third and its banking subsidiary, Fifth Third Bank. Fifth Third and its banking subsidiary are subject to such supervisory authority and, more generally, must, in certain instances, obtain prior regulatory approval before engaging in certain activities or corporate decisions. There can be no assurance that such approvals, if required, would be forthcoming or that such approvals would be granted in a timely manner. Failure to receive any such approval, if required, could limit or impair Fifth Third's operations, restrict its growth and/or affect its dividend policy. Such actions and activities subject to prior approval include, but are not limited to, increasing dividends paid by Fifth Third or its banking subsidiary, entering into a merger or acquisition transaction, acquiring or establishing new branches, and entering into certain new businesses.

The Bancorp is a bank holding company and a financial holding company. Failure by the Bancorp or Fifth Third Bank to meet the applicable eligibility requirements for financial holding



company status (including capital and management requirements and that Fifth Third Bank maintain at least a “Satisfactory” CRA rating) may result in restrictions on certain activities of the Bancorp, including the commencement of new activities and mergers with or acquisitions of other financial institutions, and could ultimately result in the loss of financial holding company status.

In the wake of the most recent global financial crisis, Fifth Third and other financial institutions more generally have been subjected to increased scrutiny from government authorities, including bank regulatory authorities, stemming from broader systemic regulatory concerns, including with respect to stress testing, capital levels, asset quality, provisioning, AML/BSA, consumer compliance and other prudential matters and efforts to ensure that financial institutions take steps to improve their risk management and prevent future crises.

In this regard, government authorities, including the bank regulatory agencies, are also pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures and may also adversely affect Fifth Third’s ability to enter into certain transactions or engage in certain activities, or obtain necessary regulatory approvals in connection therewith.

In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, which restrict or limit a financial institution. Finally, as part of Fifth Third’s regular examination process, Fifth Third’s and its banking subsidiary’s respective regulators may advise it and its banking subsidiary to operate under various restrictions as a prudential matter. Such supervisory actions or restrictions, if and in whatever manner imposed, could negatively affect Fifth Third’s ability to engage in new activities and certain transactions, as well as have a material adverse effect on Fifth Third’s business and results of operations and may not be publicly disclosed.

In July 2016, the FRB announced that Fifth Third Bank received a rating of “Needs to Improve” on its CRA examination for the period covering 2011-2013 following its periodic examination to determine Fifth Third Bank’s compliance with the CRA from 2011 through 2013. While Fifth Third Bank’s CRA rating is “Needs to Improve” the Bancorp and Fifth Third Bank face limitations and conditions on certain activities (including the commencement of new activities and merger with or acquisitions of other financial institutions) and the potential loss of financial holding company status. As a result of these limitations and conditions, Fifth Third may be unable or may fail to pursue, evaluate or complete transactions that might have been strategically or competitively significant. The Bank’s next CRA examination commenced during the fourth quarter of 2016.

***Fifth Third and/or its affiliates are or may become involved from time to time in information-gathering requests, investigations and proceedings by various governmental regulatory agencies and law enforcement authorities, as well as self-regulatory agencies which may lead to adverse consequences.***

Fifth Third and/or its affiliates are or may become involved from time to time in information-gathering requests, reviews, investigations and proceedings (both formal and informal) by governmental regulatory agencies and law enforcement authorities, as well as self-regulatory agencies, regarding their respective customers and businesses. In addition, the complexity of the federal and state regulatory and enforcement regimes in the

U.S. means that a single event or topic may give rise to numerous and overlapping investigations and regulatory proceedings. Such matters may result in material adverse consequences, including without limitation, adverse judgments, settlements, fines, penalties, injunctions or other actions, amendments and/or restatements of Fifth Third’s SEC filings and/or financial statements, as applicable, and/or determinations of material weaknesses in its disclosure controls and procedures.

There has been a trend of large settlements with governmental agencies that may adversely affect the outcomes for other financial institutions, to the extent they are used as a template for other settlements in the future. The uncertain regulatory enforcement environment makes it difficult to estimate probable losses, which can lead to substantial disparities between legal reserves and actual settlements or penalties.

***Deposit insurance premiums levied against Fifth Third Bank may increase if the number of bank failures increase or the cost of resolving failed banks increases.***

The FDIC maintains a DIF to protect insured depositors in the event of bank failures. The DIF is funded by fees assessed on insured depository institutions including Fifth Third Bank. Future deposit premiums paid by Fifth Third Bank depend on FDIC rules, which are subject to change, the level of the DIF and the magnitude and cost of future bank failures. Fifth Third Bank may be required to pay significantly higher FDIC premiums if market developments change such that the DIF balance is reduced or the FDIC changes its rules to require higher premiums.

***Fifth Third is subject to extensive governmental regulation which could adversely impact Fifth Third or the businesses in which Fifth Third is engaged.***

Fifth Third is subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of its operations and limit the businesses in which Fifth Third may engage. These laws and regulations may change from time to time and are primarily intended for the protection of consumers and depositors and are not designed to protect security-holders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact Fifth Third or its ability to increase the value of its business. Additionally, actions by regulatory agencies or significant litigation against Fifth Third could cause it to devote significant time and resources to defending itself and may lead to penalties that materially affect Fifth Third and its shareholders. Future changes in the laws, including tax laws, or regulations or their interpretations or enforcement may also be materially adverse to Fifth Third and its shareholders or may require Fifth Third to expend significant time and resources to comply with such requirements.

The DFA, enacted in 2010, is complex and broad in scope and several of its provisions are still being implemented. The DFA established the CFPB which has authority to regulate consumer financial products and services sold by banks and non-bank companies and to supervise banks with assets of more than \$10 billion and their affiliates for compliance with Federal consumer protection laws. Since its formation, the CFPB has finalized a number of significant rules that could have a significant impact on Fifth Third’s business and the financial services industry more generally including integrated mortgage disclosures under the Truth in Lending Act and the Real Estate Settlement Procedures Act. Compliance with the rules and policies adopted by the CFPB may limit the products Fifth Third may permissibly offer to customers, or limit the terms on which

those products may be issued, or may adversely affect Fifth Third's ability to conduct its business as previously conducted. Fifth Third may also be required to add additional compliance personnel or incur other significant compliance-related expenses. Fifth Third's business, results of operations or competitive position may be adversely affected as a result.

The reforms, both under the DFA and otherwise, are having a significant effect on the entire financial industry. Fifth Third believes compliance with the DFA and implementing its regulations and other initiatives will likely continue to negatively impact revenue and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and may also limit Fifth Third's ability to pursue certain desirable business opportunities. Any new regulatory requirements or changes to existing requirements could require changes to Fifth Third's businesses, result in increased compliance costs and affect the profitability of such businesses. Additionally, reform could affect the behaviors of third parties that Fifth Third deals with in the course of business, such as rating agencies, insurance companies and investors. The extent to which Fifth Third can adjust its strategies to offset such adverse impacts also is not known at this time.

***We may become subject to more stringent regulatory requirements and activity restrictions if the FRB and FDIC determine that Fifth Third's resolution plan is not credible.***

The DFA and implementing regulations jointly issued by the FRB and FDIC require bank holding companies with more than \$50 billion in assets to annually submit a resolution plan to the FRB and the FDIC that, in the event of material financial distress or failure, establish the rapid, orderly resolution under the U.S. Bankruptcy Code. If the FRB and the FDIC jointly determine that Fifth Third's resolution plan is not "credible," Fifth Third could become subjected to more stringent capital, leverage or liquidity requirements or restrictions, or restrictions on Fifth Third's growth, activities or operations, and could eventually be required to divest certain assets or operations in ways that could negatively impact its operations and strategy.

***Conforming Covered Activities to the Volcker Rule may require the expenditure of resources and management attention and result in forced sales of assets.***

Among other restricted activities, the DFA "Volcker Rule" generally restricts banks and their affiliates from sponsoring or retaining an interest in certain private equity and hedge funds. A forced sale of some or all ("Legacy Covered Funds") could result in Fifth Third receiving less value than it would otherwise have received.

***If an orderly liquidation of a systemically important bank holding company or non-bank financial company were triggered, Fifth Third could face assessments for the Orderly Liquidation Fund.***

The DFA created authority for the orderly liquidation of systemically important bank holding companies and non-bank financial companies and is based on the FDIC's bank resolution model. The Secretary of the U.S. Treasury may trigger liquidation under this authority only after consultation with the President of the United States and after receiving a recommendation from the boards of the FDIC and the Federal Reserve upon a two-thirds vote. Liquidation proceedings will be funded by the Orderly Liquidation Fund established under the DFA, which will borrow from the U.S. Treasury and impose risk-based assessments on

covered financial companies. Risk-based assessments would be made, first, on entities that received more in the resolution than they would have received in the liquidation to the extent of such excess, and second, if necessary, on, among others, bank holding companies with total consolidated assets of \$50 billion or more, such as Fifth Third. Any such assessments may adversely affect Fifth Third's business, financial condition or results of operations.

***Regulation of Fifth Third by the CFTC imposes additional operational and compliance costs.***

Title VII of DFA imposes a new regulatory regime on the U.S. derivatives markets. While most of the provisions related to derivatives markets are now in effect, several additional requirements await final regulations from the relevant regulatory agencies for derivatives, the CFTC and the SEC. One aspect of this new regulatory regime for derivatives is that substantial oversight responsibility has been provided to the CFTC, which, as a result, now has a meaningful supervisory role with respect to some of Fifth Third's businesses. In 2014, Fifth Third Bank provisionally registered as a swap dealer with the CFTC and became subject to new substantive requirements, including real time trade reporting and robust record keeping requirements, business conduct requirements (including daily valuations, disclosure of material risks associated with swaps and disclosure of material incentives and conflicts of interest), and mandatory clearing and exchange trading of all standardized swaps designated by the relevant regulatory agencies as required to be cleared. Although the ultimate impact will depend on the promulgation of all final regulations, Fifth Third's derivatives activity will be subject to FRB margin requirements and may also be subject to capital requirements specific to this derivatives activity. These requirements will collectively impose implementation and ongoing compliance burdens on Fifth Third and will introduce additional legal risk (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action). Once finalized, the rules may raise the costs and liquidity burden associated with Fifth Third's derivatives activities and could have an adverse effect on its business, financial condition and results of operations.

***Fifth Third and/or its affiliates are or may become the subject of litigation or regulatory or other enforcement proceedings that could result in substantial legal liability and damage to Fifth Third's reputation.***

Fifth Third and certain of its directors and officers have been named from time to time as defendants in various class actions and other litigation relating to Fifth Third's business and activities. Past, present and future litigation have included or could include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Enforcement authorities may seek admissions of wrongdoing and, in some cases, criminal pleas as part of the resolutions of matters, and any such resolution of a matter involving Fifth Third which could lead to increased exposure to private litigation, could adversely affect Fifth Third's reputation, and could result in limitations on Fifth Third's ability to do business in certain jurisdictions. Legal, regulatory and other enforcement proceedings could also result in material adverse judgments, settlements, fines, penalties, injunctions or other relief, amendments and/or restatements of Fifth Third's SEC filings and/or financial statements, as applicable and/or determinations of material weaknesses in its disclosure controls and procedures. In addition, responding to inquiries, investigations, lawsuits and

proceedings, regardless of the ultimate outcome of the matter, could be time-consuming and expensive. Like other large financial institutions and companies, Fifth Third is also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory or other enforcement action against Fifth Third could materially adversely affect its business, financial condition or results of operations and/or cause significant reputational harm to its business. The outcome of lawsuits and regulatory proceedings may be difficult to predict or estimate. Although Fifth Third establishes accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, Fifth Third does not have accruals for all legal proceedings where it faces a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to Fifth Third from the legal proceedings in question. Thus, Fifth Third's ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies, which could adversely affect Fifth Third's results of operations. Please see "Legal and Regulatory Proceedings" in Fifth Third's Notes to Consolidated Financial Statements for information on specific legal and regulatory proceedings.

***Fifth Third's ability to pay or increase dividends on its common stock or to repurchase its capital stock is restricted.***

Fifth Third's ability to pay dividends or repurchase stock is subject to regulatory requirements and the need to meet regulatory expectations. As part of CCAR, Fifth Third's capital plan is subject to an annual assessment by the FRB, and the FRB may object to Fifth Third's capital plan if Fifth Third does not demonstrate an ability to maintain capital above the minimum regulatory capital ratios under baseline and stressful conditions throughout a nine-quarter planning horizon. If the FRB objects to Fifth Third's capital plan, Fifth Third would be subject to limitations on its ability to make capital distributions (including paying dividends and repurchasing stock).

## ITEM 2. PROPERTIES

The Bancorp's executive offices and the main office of Fifth Third Bank are located on Fountain Square Plaza in downtown Cincinnati, Ohio in a 32-story office tower, a five-story office building with an attached parking garage and a separate ten-story office building known as the Fifth Third Center, the William S. Rowe Building and the 530 Building, respectively. The Bancorp's main operations campus is located in Cincinnati, Ohio, and is comprised of a three-story building with an attached parking garage known as the George A. Schaefer, Jr. Operations Center, and a two-story building with surface parking known as the Madisonville Office Building. The Bank owns 100% of these buildings.

At December 31, 2016, the Bancorp, through its banking and non-banking subsidiaries, operated 1,191 banking centers, of which 859 were owned, 229 were leased and 103 for which the buildings are owned but the land is leased. The banking centers are located in the states of Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, North Carolina, West Virginia, and Georgia. The Bancorp's significant owned properties are owned free from mortgages and major encumbrances.

### EXECUTIVE OFFICERS OF THE BANCORP

Officers are appointed annually by the Board of Directors at the meeting of Directors immediately following the Annual Meeting of Shareholders. The names, ages and positions of the Executive Officers of the Bancorp as of February 24, are listed below along with their business experience during the past five years:

**Greg D. Carmichael**, 55. Chief Executive Officer of the Bancorp since November 2015 and President since September 2012. Previously, Mr. Carmichael was Chief Operating Officer of the Bancorp from June 2006 to August 2015, Executive Vice President of the Bancorp from June 2006 to September 2012 and Chief Information Officer of the Bancorp from June 2003 to June 2006.

**Lars C. Anderson**, 55. Executive Vice President and Chief Operating Officer of the Bancorp since August 2015. Previously, Mr. Anderson was Vice Chairman of Comerica Incorporated and Comerica Bank since December 2010.

**Chad M. Borton**, 46. Executive Vice President of the Bancorp since April 2014. Previously, Mr. Borton was Head of Retail Banking for Fifth Third Bank from July 2012 to April 2014. Prior to that, Mr. Borton served in multiple positions at JP Morgan Chase including the Head of Branch Administration from August 2011 to July 2012; Senior Vice President and Market Manager from August 2010 to August 2011; Head of Retail Distribution from 2008 to 2010 and Consumer Bank Chief Financial Officer from 2006 to 2008.

**Frank R. Forrest**, 62. Executive Vice President and Chief Risk Officer of the Bancorp since April 2014. Previously, Mr. Forrest was Executive Vice President and Chief Risk and Credit Officer of the Bancorp since September 2013. Prior to that, Mr. Forrest served with Bank of America Merrill Lynch. From March 2012 until June 2013, Mr. Forrest served as Managing Director and Quality Control Executive for Legacy Asset Services, a division of Bank of America. From September 2008 until March 2012, Mr. Forrest was Managing Director and Global Debt Products Executive for Global Corporate and Investment Banking. Formerly from January 2007 to September 2008, Mr. Forrest was Risk Management Executive for Commercial Banking.

**Mark D. Hazel**, 51. Senior Vice President and Controller of the Bancorp since February 2010. Prior to that, Mr. Hazel was the Assistant Bancorp Controller since 2006 and was the Controller of Nonbank entities since 2003.

**Aravind Immaneni**, 46. Executive Vice President and Chief Operations and Technology Officer since November 14, 2016. Previously Mr. Immaneni worked for TD Bank as Executive Vice President and Head of Retail Distribution Strategy & Operations since November 2014, Senior Vice President and Head of Retail Bank Operations from August 2013 to November 2014, and Senior Vice President and Head of Deposit & Debit Operations from February 2011 to August 2013.

**James C. Leonard**, 47. Executive Vice President since September 2015 and Treasurer of the Bancorp since October 2013. Previously, Mr. Leonard was Senior Vice President from October 2013 to September 2015, the Director of Business Planning and Analysis from 2006 to 2013 and the Chief Financial Officer of the Commercial Banking Division from 2001 to 2006.

**Philip R. McHugh**, 52. Executive Vice President of the Bancorp since December 2014. Previously, Mr. McHugh was Executive Vice President of Fifth Third Bank since June 2011 and was Senior Vice President of Fifth Third Bank from June 2010 through June 2011. Prior to that, Mr. McHugh was the President and CEO of the Louisville Affiliate of Fifth Third Bank from January 2005 through June 2010.

**Jelena McWilliams**, 43. Executive Vice President, Chief Legal Officer and Corporate Secretary since January 9, 2017. Previously Ms. McWilliams was Chief Counsel since January 2015 and Deputy Staff Director since July 2016 of the U.S. Senate Committee on Banking, Housing and Urban Affairs. Previously she was Senior Counsel to the U.S. Senate Committee on Banking, Housing and Urban Affairs from July 2012 to December 2015. Prior to that, she served as Assistant Chief Counsel to the U.S. Senate Small Business and Entrepreneurship Committee and before that as an attorney at the Federal Reserve Board of Governors. Prior to government service, she practiced as an attorney with Morrison & Foerster LLP in Palo Alto, California and then with Hogan & Hartson LLP (now Hogan Lovells LLP) in Washington, D.C.

**Timothy N. Spence**, 38. Executive Vice President and Chief Strategy Officer of the Bancorp since September 2015. Previously, Mr. Spence was a senior partner in the Financial Services practice at Oliver Wyman since 2006, a global strategy and risk management consulting firm.

**Teresa J. Tanner**, 48. Executive Vice President and Chief Administrative Officer since September 2015. Previously, Ms. Tanner was the Executive Vice President and Chief Human Resources Officer of the Bancorp since February 2010 and Senior Vice President and Director of Enterprise Learning since September 2008. Prior to that, she was Human Resources Senior Vice President and Senior Business Partner for the Information Technology and Central Operations divisions since July 2006. Previously, she was Vice President and Senior Business Partner for Operations since September 2004.

**Tayfun Tuzun**, 52. Executive Vice President and Chief Financial Officer of the Bancorp since October 2013. Previously, Mr. Tuzun was the Senior Vice President and Treasurer of the Bancorp from December 2011 to October 2013. Prior to that, Mr. Tuzun was the Assistant Treasurer and Balance Sheet Manager of Fifth Third Bancorp. Previously, Mr. Tuzun was the Structured Finance Manager since 2007.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bancorp's common stock is traded in the over-the-counter market and is listed under the symbol "FITB" on the NASDAQ® Global Select Market System.

#### High and Low Stock Prices and Dividends Paid Per Share

2016	High	Low	Dividends Paid Per Share
Fourth Quarter	\$27.88	\$19.57	\$0.14
Third Quarter	\$21.11	\$16.26	\$0.13
Second Quarter	\$19.34	\$16.02	\$0.13
First Quarter	\$19.73	\$13.84	\$0.13

2015	High	Low	Dividends Paid Per Share
Fourth Quarter	\$21.14	\$18.15	\$0.13
Third Quarter	\$21.93	\$18.21	\$0.13
Second Quarter	\$21.90	\$18.63	\$0.13
First Quarter	\$20.53	\$17.14	\$0.13

See a discussion of dividend limitations that the subsidiaries can pay to the Bancorp discussed in Note 3 of the Notes to Consolidated Financial Statements. Additionally, as of December 31, 2016, the Bancorp had 42,892 shareholders of record.

#### Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased <sup>(a)</sup>	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 <sup>(b)</sup>
October 2016	120,199	\$ 20.24	-	87,584,352
November 2016	1,468,615	20.87	1,099,205	86,485,147
December 2016	4,965,665	27.17	4,843,750	81,641,397
Total	6,554,479	\$ 25.63	5,942,955	81,641,397

(a) The Bancorp repurchased 120,199, 369,410 and 121,915 shares during October, November and December of 2016, respectively, in connection with various employee compensation plans of the Bancorp. 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 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 transaction. The authorization does not include specific price targets or an expiration date. This share repurchase authorization replaces the Board's previous authorization pursuant to which approximately 14 million shares remained available for repurchase by the Bancorp.

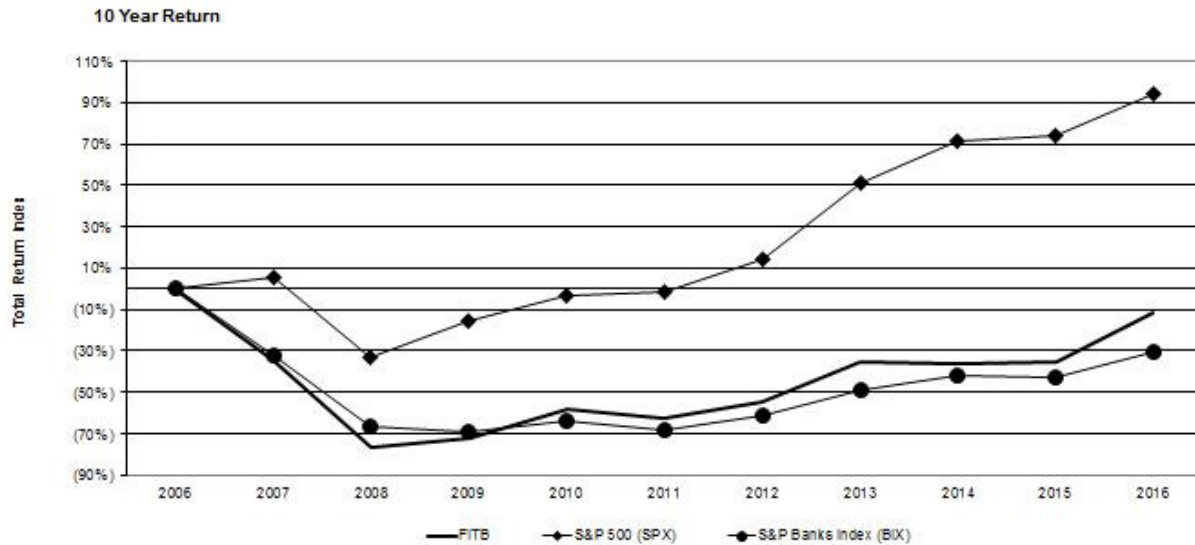
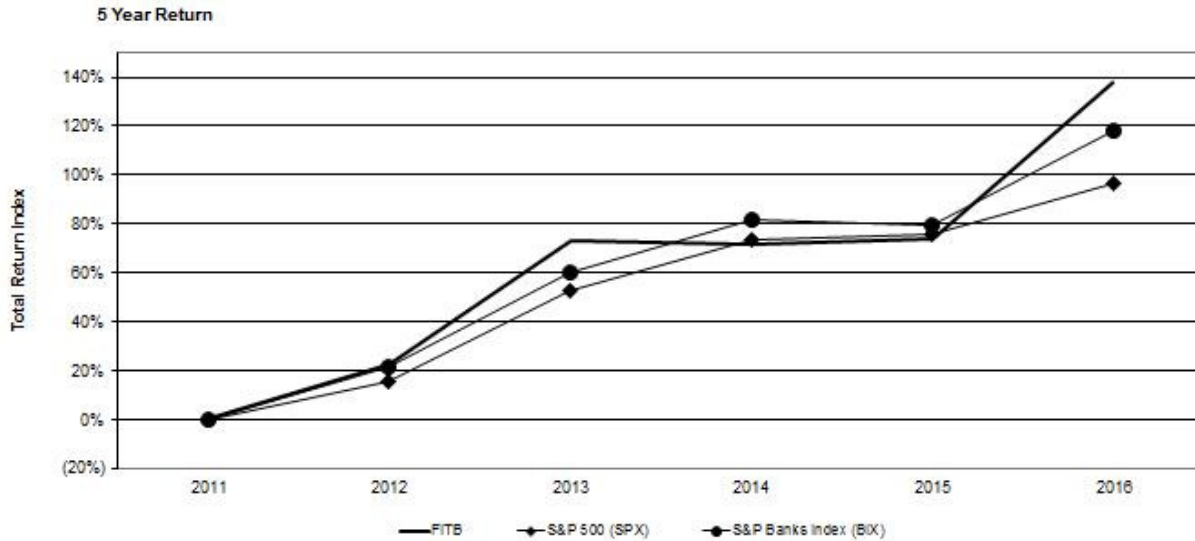
See further discussion on accelerated share repurchase transactions and stock-based compensation in Note 23 and Note 24 of the Notes to Consolidated Financial Statements.

The following performance graphs do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Bancorp specifically incorporates the performance graphs by reference therein.

**Total Return Analysis**

The graphs below summarize the cumulative return experienced by the Bancorp's shareholders over the years 2011 through 2016, and 2006 through 2016, respectively, compared to the S&P 500 Stock and the S&P Banks indices.

**FIFTH THIRD BANCORP VS. MARKET INDICES**



**Shares Issued Under Certain Employee Benefit Plans**

As previously disclosed, during the fourth 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 in the corresponding S-8 registration statement. As a result, approximately 207,444 unregistered shares were sold through the 401(k) Plan during the fourth quarter of 2016.

The Bancorp filed the required Form S-8 for the 401(k) Plan on November 10, 2016 and plans to make a voluntary rescission offer to eligible plan participants in order to remediate the registration defect during the first half of 2017. The Bancorp also plans to make rescission offers to participants of other plans as well for previously disclosed registration and prospectus delivery failures. Based on the market price of Fifth Third Bancorp's common stock in February 2017, 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.

### **PART III ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item relating to the Executive Officers of the Registrant is included in PART I under “EXECUTIVE OFFICERS OF THE BANCORP.”

The information required by this item concerning Directors and the nomination process is incorporated herein by reference under the caption “ELECTION OF DIRECTORS” of the Bancorp’s Proxy Statement for the 2017 Annual Meeting of Shareholders.

The information required by this item concerning the Audit Committee and Code of Business Conduct and Ethics is incorporated herein by reference under the captions “CORPORATE GOVERNANCE” and “BOARD OF DIRECTORS, ITS COMMITTEES, MEETINGS AND FUNCTIONS” of the Bancorp’s Proxy Statement for the 2017 Annual Meeting of Shareholders.

The information required by this item concerning Section 16 (a) Beneficial Ownership Reporting Compliance is incorporated herein by reference under the caption “SECTION 16 (a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” of the Bancorp’s Proxy Statement for the 2017 Annual Meeting of Shareholders.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated herein by reference under the captions “COMPENSATION DISCUSSION AND ANALYSIS,” “COMPENSATION OF NAMED EXECUTIVE OFFICERS AND DIRECTORS,” “COMPENSATION COMMITTEE REPORT” and “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION” of the Bancorp’s Proxy Statement for the 2017 Annual Meeting of Shareholders.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Security ownership information of certain beneficial owners and management is incorporated herein by reference under the captions “CERTAIN BENEFICIAL OWNERS,” “ELECTION OF DIRECTORS,” “COMPENSATION DISCUSSION AND ANALYSIS” and “COMPENSATION OF NAMED EXECUTIVE OFFICERS AND DIRECTORS” of the Bancorp’s Proxy Statement for the 2017 Annual Meeting of Shareholders.

The information required by this item concerning Equity Compensation Plan information is included in Note 24 of the Notes to Consolidated Financial Statements.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated herein by reference under the captions “CERTAIN TRANSACTIONS,” “ELECTION OF DIRECTORS,” “CORPORATE GOVERNANCE” and “BOARD OF DIRECTORS, ITS COMMITTEES, MEETINGS AND FUNCTIONS” of the Bancorp’s Proxy Statement for the 2017 Annual Meeting of Shareholders.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated herein by reference under the caption “PRINCIPAL INDEPENDENT

EXTERNAL AUDIT FIRM FEES” of the Bancorp’s Proxy Statement for the 2017 Annual Meeting of Shareholders.

### **PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

	Pages
Public Accounting Firm	93-94
Fifth Third Bancorp and Subsidiaries Consolidated Financial Statements	95-99
Notes to Consolidated Financial Statements	100-182

The schedules for the Bancorp and its subsidiaries are omitted because of the absence of conditions under which they are required, or because the information is set forth in the Consolidated Financial Statements or the notes thereto.

The following lists the Exhibits to the Annual Report on Form 10-K.

- 2.1 Master Investment Agreement (excluding exhibits and schedules) dated as of March 27, 2009 and amended as of June 30, 2009, among Fifth Third Bank, Fifth Third Financial Corporation, Advent-Kong Blocker Corp., FTPS Holding, LLC and Fifth Third Processing Solutions, LLC. Incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K filed with the Commission on July 2, 2009.
- 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 Junior Subordinated Indenture, dated as of March 20, 1997 between Fifth Third Bancorp and Wilmington Trust Company, as Trustee. Incorporated by reference to Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.
- 4.2 Indenture, dated as of May 23, 2003, between Fifth Third Bancorp and Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2003.
- 4.3 Global Security representing Fifth Third Bancorp’s \$500,000,000 4.50% Subordinated Notes due 2018. Incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2003.
- 4.4 First Supplemental Indenture, dated as of December 20, 2006, between Fifth Third Bancorp and Wilmington Trust Company, as Trustee. Incorporated by reference to Registrant’s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006.
- 4.5 First Supplemental Indenture dated as of March 30, 2007 between Fifth Third Bancorp and Wilmington Trust Company, as trustee, to the Junior Subordinated Indenture dated as of May 20, 1997 between Fifth Third Bancorp and the Wilmington Trust Company. Incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 30, 2007.
- 4.6 Global Security dated as of March 4, 2008 representing Fifth Third Bancorp’s \$500,000,000 8.25% Subordinated Notes due 2038. Incorporated by reference to Exhibit 4.1 to the Registrant’s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2008. (1)
- 4.7 Indenture for Senior Debt Securities dated as of April 30, 2008 between Fifth Third Bancorp and Wilmington Trust Company, as trustee. Incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2008.

- 4.8 First Supplemental Indenture dated as of January 25, 2011 between Fifth Third Bancorp and Wilmington Trust Company, as Trustee, to the Indenture for Senior Debt Securities dated as of April 30, 2008 between Fifth Third and the Trustee. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 25, 2011.
- 4.9 Second Supplemental Indenture dated as of March 7, 2012 between Fifth Third Bancorp and Wilmington Trust Company, as Trustee, to the Indenture for Senior Debt Securities dated as of April 30, 2008 between Fifth Third Bancorp and the Wilmington Trust Company. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2012.
- 4.10 Global Security dated as of March 7, 2012 representing Fifth Third Bancorp's \$500,000,000 3.500% Senior Notes due 2022. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on March 7, 2012.
- 4.11 Deposit Agreement dated as of May 16, 2013, between Fifth Third Bancorp, as issuer, Wilmington Trust, National Association, as depositary and calculation agent, American Stock Transfer & Trust Company, LLC, as transfer agent and registrar, and the holders from time to time of the depositary receipts issued thereunder. Incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2013.
- 4.12 Form of Certificate Representing the 5.10% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series H, of Fifth Third Bancorp. Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2013.
- 4.13 Form of Depositary Receipt for the 5.10% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series H, of Fifth Third Bancorp. Incorporated by reference to Exhibit 4.4 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2013.
- 4.14 Global Security dated as of November 20, 2013 representing Fifth Third Bancorp's \$500,000,000 4.30% Subordinated Notes due 2024. Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2013.
- 4.15 Deposit Agreement dated December 9, 2013, between Fifth Third Bancorp, as issuer, Wilmington Trust, National Association, as depositary and calculation agent, American Stock Transfer & Trust Company, LLC as transfer agent and registrar, and the holders from time to time of the depositary receipts issued thereunder. Incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2013.
- 4.16 Form of Certificate Representing the 6.625% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series I, of Fifth Third Bancorp. Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2013.
- 4.17 Form of Depositary Receipt for the 6.625% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series I, of Fifth Third Bancorp. Incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2013.
- 4.18 Deposit Agreement dated June 5, 2014, among Fifth Third Bancorp, as issuer, Wilmington Trust, National Association, as depositary and calculation agent, American Stock Transfer & Trust Company, LLC as transfer agent and registrar, and the holders from time to time of the depositary receipts issued thereunder. Incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 5, 2014.
- 4.19 Form of Certificate Representing the 4.90% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series J, of Fifth Third Bancorp. Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 5, 2014.
- 4.20 Form of Depositary Receipt for the 4.90% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series J, of Fifth Third Bancorp. Incorporated by reference to Exhibit 4.4 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 5, 2014.
- 4.21 Third Supplemental Indenture dated as of February 28, 2014 between Fifth Third Bancorp and Wilmington Trust Company, as Trustee, to the Indenture for Senior Debt Securities dated as of April 30, 2008 between Fifth Third Bancorp and the Trustee. Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the Commission on February 28, 2014.
- 4.22 Global Security dated as of February 28, 2014, representing Fifth Third Bancorp's \$500,000,000 in principal amount of its 2.30% Senior Notes due 2019. Incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed with the Commission on February 28, 2014.
- 4.23 Fourth Supplemental Indenture dated as of July 27, 2015 between Fifth Third Bancorp and Wilmington Trust Company, as Trustee, to the Indenture for Senior Debt Securities dated as of April 30, 2008 between Fifth Third Bancorp and the Trustee. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Commission on July 27, 2015.
- 4.24 Global Security dated as of July 27, 2015, representing Fifth Third Bancorp's \$1,100,000,000 in principal amount of its 2.875% Senior Notes due 2020. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Commission on July 27, 2015.
- 4.25 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 Fifth Third Bancorp Unfunded Deferred Compensation Plan for Non-Employee Directors, as Amended and Restated. Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.\*
- 10.2 Indenture effective November 19, 1992 between Fifth Third Bancorp, Issuer and NBD Bank, N.A., Trustee. Incorporated by reference to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 1992 and as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3, Registration No. 33-54134.
- 10.3 Fifth Third Bancorp Master Profit Sharing Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.\*
- 10.4 First Amendment to Fifth Third Bancorp Master Profit Sharing Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.\*
- 10.5 Second Amendment to Fifth Third Bancorp Master Profit Sharing Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012.\*
- 10.6 Third Amendment to Fifth Third Bancorp Master Profit Sharing Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.\*
- 10.7 Fifth Third Bancorp 401(k) Savings Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*
- 10.8 First Amendment to Fifth Third Bancorp 401(k) Savings Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 25, 2016.\*
- 10.9 The Fifth Third Bancorp Master Retirement Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.8 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*\*
- 10.10 First Amendment to The Fifth Third Bancorp Master Retirement Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 25, 2016.\*
- 10.11 Second Amendment to The Fifth Third Bancorp Master Retirement Plan, as Amended and Restated.\*
- 10.12 Fifth Third Bancorp Incentive Compensation Plan. Incorporated by reference to Annex 2 to the Registrant's Proxy Statement dated February 19, 2004.\*



- 10.13 Fifth Third Bancorp 2008 Incentive Compensation Plan. Incorporated by reference to Annex 2 to the Registrant's Proxy Statement dated March 6, 2008.\*
- 10.14 Fifth Third Bancorp 2014 Incentive Compensation Plan. Incorporated by reference to Annex A to the Registrant's Proxy Statement dated March 6, 2014.\*
- 10.15 Amended and Restated Fifth Third Bancorp 1993 Stock Purchase Plan. Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.\*
- 10.16 Fifth Third Bancorp Non-qualified Deferred Compensation Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013.\*
- 10.17 Amendment to the Fifth Third Bancorp Non-qualified Deferred Compensation Plan, as Amended and Restated. Incorporated by reference to Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*
- 10.18 Fifth Third Bancorp Stock Option Gain Deferral Plan. Incorporated by reference to Registrant's Proxy Statement dated February 9, 2001.\*
- 10.19 Amendment No. 1 to Fifth Third Bancorp Stock Option Gain Deferral Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 26, 2005.\*
- 10.20 Amended and Restated First National Bankshares of Florida, Inc. 2003 Incentive Plan. Incorporated by reference to Exhibit 10.10 to First National Bankshares of Florida, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003.\*
- 10.21 Fifth Third Bancorp Executive Change in Control Severance Plan, effective January 1, 2015. Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 21, 2014.\*
- 10.22 Warrant dated June 30, 2009 issued by Vantiv Holding, LLC to Fifth Third Bank. Incorporated by reference to Exhibit L to the Registrant's Schedule 13D/A filed with the Commission on December 30, 2015.
- 10.23 Second Amended & Restated Limited Liability Company Agreement (excluding certain exhibits) dated as of March 21, 2012 by and among Vantiv, Inc., Fifth Third Bank, FTPS Partners, LLC, Vantiv Holding, LLC and each person who becomes a member after March 21, 2012. Incorporated by reference to Exhibit C to the Registrant's Schedule 13D filed with the Commission on April 2, 2012.
- 10.24 Amendment and Restatement Agreement and Reaffirmation (excluding certain schedules) dated as of June 30, 2009 among Fifth Third Processing Solutions, LLC, FTPS Holding, LLC, Card Management Company, LLC, Fifth Third Holdings, LLC and Fifth Third Bank. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Commission on July 2, 2009.
- 10.25 Registration Rights Agreement dated as of March 21, 2012 by and among Vantiv, Inc., Fifth Third Bank, FTPS Partners, LLC, JPDN Enterprises, LLC and certain stockholders of Vantiv, Inc. Incorporated by reference to Exhibit E to the Registrant's Schedule 13D filed with the Commission on April 2, 2012.
- 10.26 Exchange Agreement dated as of March 21, 2012 by and among Vantiv, Inc., Vantiv Holding, LLC, Fifth Third Bank, FTPS Partners, LLC and such other holders of Class B Units and Class C Non-Voting Units that are from time to time parties of the Exchange Agreement. Incorporated by reference to Exhibit B to the Registrant's Schedule 13D filed with the Commission on April 2, 2012.
- 10.27 Recapitalization Agreement dated as of March 21, 2012 by and among Vantiv, Inc., Vantiv Holding, LLC, Fifth Third Bank, FTPS Partners, LLC, JPDN Enterprises, LLC and certain stockholders of Vantiv, Inc. Incorporated by reference to Exhibit D to the Registrant's Schedule 13D filed with the Commission on April 2, 2012.
- 10.28 Stock Appreciation Right Award Agreement. Incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.\*
- 10.29 Performance Share Award Agreement. Incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.\*
- 10.30 Restricted Stock Award Agreement (for Directors). Incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.\*
- 10.31 Restricted Stock Award Agreement (for Executive Officers). Incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.\*
- 10.32 Stock Appreciation Right Award Agreement. Incorporated by reference to Exhibit 10.34 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*
- 10.33 Performance Share Award Agreement. Incorporated by reference to Exhibit 10.35 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*
- 10.34 Restricted Stock Unit Agreement (for Directors). Incorporated by reference to Exhibit 10.36 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*
- 10.35 Restricted Stock Award Agreement (for Executive Officers). Incorporated by reference to Exhibit 10.37 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*
- 10.36 Master Confirmation, as supplemented by a Supplemental Confirmation, for accelerated share repurchase transaction dated October 20, 2014 between Fifth Third Bancorp and Deutsche Bank AG, London Branch. Incorporated by reference to Exhibit 10.38 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.\*\*
- 10.37 Master Confirmation, as supplemented by a Supplemental Confirmation, for accelerated share repurchase transaction dated July 29, 2015 between Fifth Third Bancorp and Morgan Stanley & Co. LLC. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2015.\*\*
- 10.38 Supplemental Confirmation dated September 3, 2015, to Master Confirmation, dated May 21, 2013, for accelerated share repurchase transaction between Fifth Third Bancorp and Deutsche Bank AG, London Branch, with Deutsche Bank Securities Inc. acting as agent. Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2015. Master Confirmation is incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 7, 2013.\*\*
- 10.39 Separation Agreement between Fifth Third Bancorp and Dan Poston dated October 2, 2015. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A filed with the Commission on October 6, 2015.
- 10.40 Master Confirmation, as supplemented by a Supplemental Confirmation, for accelerated share repurchase transaction dated April 27, 2015 between Fifth Third Bancorp and Barclays Bank PLC, through its agent Barclays Capital Inc. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 5, 2015.\*\*
- 10.41 Offer letter from Fifth Third Bancorp to Lars C. Anderson. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on July 16, 2015.\*\*
- 10.42 Master Confirmation, dated January 22, 2015, and Supplemental Confirmation, for accelerated share repurchase transaction dated January 22, 2015 between Fifth Third Bancorp and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 11, 2015.\*\*
- 10.43 Supplemental Confirmation dated December 9, 2015, to Master Confirmation dated January 22, 2015, for accelerated share repurchase transaction between Fifth Third Bancorp and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 25, 2016.\*\*
- 10.44 Supplemental Confirmation dated March 1, 2016, to Master Confirmation dated July 29, 2015, for accelerated share repurchase transaction between Fifth Third Bancorp and Morgan Stanley & Co. LLC. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 6, 2016.\*\*
- 10.45 Supplemental Confirmation dated August 2, 2016, to Master Confirmation dated January 22, 2015, for accelerated share repurchase transaction between Fifth Third Bancorp and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 9, 2016.\*\*

- 10.46 Bancorp Director Pay Program. Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 9, 2016\*.
- 10.47 Supplemental Confirmation dated December 15, 2016, to Master Confirmation dated May 21, 2013, for accelerated share repurchase transaction between Fifth Third Bancorp and Deutsche Bank AG, London Branch.\*\*
- 10.48 2016 Restricted Stock Unit Grant Agreement (for Directors).\*
- 10.49 2017 Stock Appreciation Right Award Agreement (for Executive Officers).\*
- 10.50 2017 Performance Share Award Agreement.\*
- 10.51 2017 Restricted Stock Unit Grant Agreement (for Executive Officers).\*
- 10.52 Long-Term Incentive Award Overview February 2017 Grants.\*
- 12.1 Computations of Consolidated Ratios of Earnings to Fixed 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.
- 21 Fifth Third Bancorp Subsidiaries, as of December 31, 2016.
- 23 Consent of Independent Registered Public Accounting Firm-Deloitte & Touche LLP.
- 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.
- 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.
- 99.1 Consent Order pursuant to the Consumer Financial Protection Act of 2010, dated September 28, 2015, between Fifth Third Bank and the U.S. Department of Justice regarding indirect auto loans. Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on September 29, 2015.
- 99.2 Consent Order pursuant to the Consumer Financial Protection Act of 2010, dated September 28, 2015, between Fifth Third Bank and the Consumer Financial Protection Bureau, including the Stipulation and Consent to the Issuance of a Consent Order, dated September 28, 2015, by Fifth Third Bank regarding indirect auto loans. Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed with the Commission on September 29, 2015.
- 99.3 Consent Order pursuant to the Consumer Financial Protection Act of 2010, dated September 28, 2015, between Fifth Third Bank and the Consumer Financial Protection Bureau, including the Stipulation and Consent to the Issuance of a Consent Order, dated September 28, 2015, by Fifth Third Bank regarding credit card add-on products. Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed with the Commission on September 29, 2015.
- 99.4 Settlement Agreement entered into on September 30, 2015, between the United States Department of Housing and Urban Development and Fifth Third Bancorp and its subsidiaries. Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on October 7, 2015.
- 99.5 Stipulation and Order of Settlement and Dismissal entered into on September 30, 2015, by and among plaintiff the United States of America and on behalf of the United States Department of Housing and Urban Development and the Federal Housing Administration and Fifth Third Bancorp and its subsidiaries (excluding exhibits). Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed with the Commission on October 7, 2015.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements tagged as blocks of text and in detail.

- (1) Fifth Third Bancorp also entered into an identical security on March 4, 2008 representing an additional \$500,000,000 of its 8.25% Subordinated Notes due 2038.
- (2) Fifth Third Bancorp also entered into an identical security on November 20, 2013 representing an additional \$250,000,000 in principal amount of its 4.30% Subordinated Notes due 2024.

\* Denotes management contract or compensatory plan or arrangement.

\*\* An application for confidential treatment for selected portions of this exhibit has been filed with the Securities and Exchange Commission.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

/s/ Greg D. Carmichael  
\_\_\_\_\_  
**Greg D. Carmichael**  
President and CEO  
Principal Executive Officer  
February 24, 2017

*Pursuant to requirements of the Securities Exchange Act of 1934, this report has been signed on February 24, 2017 by the following persons on behalf of the Registrant and in the capacities indicated.*

**OFFICERS:**

/s/ Greg D. Carmichael  
\_\_\_\_\_  
**Greg D. Carmichael**  
President and CEO  
Principal Executive Officer

/s/ Tayfun Tuzun  
\_\_\_\_\_  
**Tayfun Tuzun**  
Executive Vice President and CFO  
Principal Financial Officer

/s/ Mark D. Hazel  
\_\_\_\_\_  
**Mark D. Hazel**  
Senior Vice President and Controller  
Principal Accounting Officer

**DIRECTORS:**

/s/ Marsha C. Williams  
\_\_\_\_\_  
**Marsha C. Williams**  
Board Chair

/s/ Nicholas K. Akins  
\_\_\_\_\_  
**Nicholas K. Akins**

\_\_\_\_\_  
**B. Evan Bayh III**

/s/ Jorge L. Benitez  
\_\_\_\_\_  
**Jorge L. Benitez**

/s/ Katherine B. Blackburn  
\_\_\_\_\_  
**Katherine B. Blackburn**

/s/ Emerson L. Brumback  
\_\_\_\_\_  
**Emerson L. Brumback**

/s/ Jerry W. Burris  
\_\_\_\_\_  
**Jerry W. Burris**

/s/ Greg D. Carmichael  
\_\_\_\_\_  
**Greg D. Carmichael**

/s/ Gary R. Heminger  
\_\_\_\_\_  
**Gary R. Heminger**

/s/ Jewell D. Hoover  
\_\_\_\_\_  
**Jewell D. Hoover**

/s/ Eileen A. Mallesch  
\_\_\_\_\_  
**Eileen A. Mallesch**

\_\_\_\_\_  
**Michael B. McCallister**

/s/ Hendrik G. Meijer  
\_\_\_\_\_  
**Hendrik G. Meijer**

**CONSOLIDATED TEN YEAR COMPARISON**

**AVERAGE ASSETS FOR THE YEARS ENDED DECEMBER 31 (\$ IN MILLIONS)**

Year	Interest-Earning Assets								Total Average Assets <sup>(c)</sup>
	Loans and Leases	Federal Funds Sold <sup>(a)</sup>	Interest-Bearing Deposits in			Total	Cash and Due from Banks	Other Assets <sup>(c)</sup>	
			Banks <sup>(a)</sup>	Securities					
2016	\$ 94,320	1	1,865	30,099	126,285	2,303	14,963	142,266	
2015	93,339	1	3,257	26,987	123,584	2,608	15,179	140,078	
2014	91,127	-	3,043	21,823	115,993	2,892	14,505	131,909	
2013	89,093	1	2,416	16,444	107,954	2,482	15,025	123,704	
2012	84,822	2	1,493	15,319	101,636	2,355	15,643	117,562	
2011	80,214	1	2,030	15,437	97,682	2,352	15,259	112,590	
2010	79,232	11	3,317	16,371	98,931	2,245	14,758	112,351	
2009	83,391	12	1,023	17,100	101,526	2,329	14,179	114,769	
2008	85,835	438	183	13,424	99,880	2,490	13,326	114,211	
2007	78,348	257	147	11,630	90,382	2,275	10,578	102,442	

**AVERAGE DEPOSITS AND SHORT-TERM BORROWINGS FOR THE YEARS ENDED DECEMBER 31 (\$ IN MILLIONS)**

Year	Deposits									
	Demand	Interest Checking	Savings	Money Market	Other Time	Certificates \$100,000 and Over	Foreign Office and Other	Total	Short-Term Borrowings	Total
2016	\$ 35,862	25,143	14,346	19,523	4,010	2,735	830	102,449	3,351	105,800
2015	35,164	26,160	14,951	18,152	4,051	2,869	874	102,221	2,641	104,862
2014	31,755	25,382	16,080	14,670	3,762	3,929	1,828	97,406	2,331	99,737
2013	29,925	23,582	18,440	9,467	3,760	6,339	1,518	93,031	3,527	96,558
2012	27,196	23,096	21,393	4,903	4,306	3,102	1,555	85,551	4,806	90,357
2011	23,389	18,707	21,652	5,154	6,260	3,656	3,497	82,315	3,122	85,437
2010	19,669	18,218	19,612	4,808	10,526	6,083	3,361	82,277	1,926	84,203
2009	16,862	15,070	16,875	4,320	14,103	10,367	2,265	79,862	6,980	86,842
2008	14,017	14,191	16,192	6,127	11,135	9,531	4,220	75,413	10,760	86,173
2007	13,261	14,820	14,836	6,308	10,778	6,466	3,155	69,624	6,890	76,514

**INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31 (\$ IN MILLIONS, EXCEPT PER SHARE DATA)**

Year	Per Share <sup>(b)</sup>									
	Net Income (Loss)					Originally Reported				
	Interest Income	Interest Expense	Noninterest Income	Noninterest Expense	Available to Common Shareholders	Earnings	Diluted Earnings	Dividends Declared	Earnings	Diluted Earnings
2016	\$ 4,193	578	2,696	3,903	1,489	1.95	1.93	0.53	1.95	1.93
2015	4,028	495	3,003	3,775	1,637	2.03	2.01	0.52	2.03	2.01
2014	4,030	451	2,473	3,709	1,414	1.68	1.66	0.51	1.68	1.66
2013	3,973	412	3,227	3,961	1,799	2.05	2.02	0.47	2.05	2.02
2012	4,107	512	2,999	4,081	1,541	1.69	1.66	0.36	1.69	1.66
2011	4,218	661	2,455	3,758	1,094	1.20	1.18	0.28	1.20	1.18
2010	4,489	885	2,729	3,855	503	0.63	0.63	0.04	0.63	0.63
2009	4,668	1,314	4,782	3,826	511	0.73	0.67	0.04	0.73	0.67
2008	5,608	2,094	2,946	4,564	(2,180)	(3.91)	(3.91)	0.75	(3.94)	(3.94)
2007	6,027	3,018	2,467	3,311	1,075	1.99	1.98	1.70	2.00	1.99

**MISCELLANEOUS AT DECEMBER 31 (\$ IN MILLIONS, EXCEPT PER SHARE DATA)**

Year	Bancorp Shareholders' Equity								Total	Book Value Per Share	Allowance for Loan and Lease Losses
	Common Shares Outstanding	Common Stock	Preferred Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock				
2016	750,479,299	\$ 2,051	1,331	2,756	13,441	59	(3,433)	16,205	19.82	1,253	
2015	785,080,314	2,051	1,331	2,666	12,358	197	(2,764)	15,839	18.48	1,272	
2014	824,046,952	2,051	1,331	2,646	11,141	429	(1,972)	15,626	17.35	1,322	
2013	855,305,745	2,051	1,034	2,561	10,156	82	(1,295)	14,589	15.85	1,582	
2012	882,152,057	2,051	398	2,758	8,768	375	(634)	13,716	15.10	1,854	
2011	919,804,436	2,051	398	2,792	7,554	470	(64)	13,201	13.92	2,255	
2010	796,272,522	1,779	3,654	1,715	6,719	314	(130)	14,051	13.06	3,004	
2009	795,068,164	1,779	3,609	1,743	6,326	241	(201)	13,497	12.44	3,749	
2008	577,386,612	1,295	4,241	848	5,824	98	(229)	12,077	13.57	2,787	
2007	532,671,925	1,295	9	1,779	8,413	(126)	(2,209)	9,161	17.18	937	

(a) Federal funds sold and interest-bearing deposits in banks are combined in other short-term investments in the Consolidated Financial Statements.

(b) Adjusted for accounting guidance related to the calculation of earnings per share, which was adopted retroactively on January 1, 2009.

(c) Upon adoption of ASU 2015-03 on January 1, 2016, the Consolidated Balance Sheets for the years ended 2007-2015 were adjusted to reflect the reclassification of average debt issuance costs from average other assets to average long-term debt, respectively. For further information, refer to Note 1 of the Notes to Consolidated Financial Statements.

## DIRECTORS AND OFFICERS

### FIFTH THIRD BANCORP DIRECTORS

Marsha C. Williams, Board Chair  
*Retired Chief Financial Officer*  
*Orbitz Worldwide, Inc.*

Nicholas K. Akins  
*Chairman, President &*  
*Chief Executive Officer*  
*American Electric Power Company*

B. Evan Bayh III  
*Partner*  
*McGuireWoods LLP*

Jorge L. Benitez  
*Retired Chief Executive Officer*  
*North America of Accenture plc*

Katherine B. Blackburn  
*Executive Vice President*  
*Cincinnati Bengals, Inc.*

Emerson L. Brumback  
*Retired President & Chief Operating Officer*  
*M&T Bank*

Jerry W. Burris  
*Retired President and Chief Executive Officer*  
*Associated Materials Group, Inc.*

Greg D. Carmichael  
*President & Chief Executive Officer*  
*Fifth Third Bancorp*

Gary R. Heminger  
*President, Chief Executive Officer &*  
*Chairman*  
*Marathon Petroleum Corporation*

Jewell D. Hoover  
*Retired Senior Official*  
*Comptroller of the Currency*

Eileen A. Mallesch  
*Retired Chief Financial Officer*  
*Nationwide Property & Casualty Segment,*  
*Nationwide Mutual Insurance Company*

Michael B. McCallister  
*Retired Chairman & Chief Executive Officer*  
*Humana Inc.*

Hendrik G. Meijer  
*Co-Chairman, Chief Executive Officer &*  
*Director*  
*Meijer, Inc.*

### FIFTH THIRD BANCORP OFFICERS

Greg D. Carmichael  
*President &*  
*Chief Executive Officer*

Lars C. Anderson  
*Executive Vice President &*  
*Chief Operating Officer*

Chad M. Borton  
*Executive Vice President*

Frank R. Forrest  
*Executive Vice President &*  
*Chief Risk Officer*

Mark D. Hazel  
*Senior Vice President &*  
*Controller*

Aravind Immaneni  
*Executive Vice President &*  
*Chief Operations*  
*and Technology Officer*

James C. Leonard  
*Executive Vice President &*  
*Treasurer*

Philip R. McHugh  
*Executive Vice President*

Jelena McWilliams  
*Executive Vice President,*  
*Chief Legal Officer &*  
*Corporate Secretary*

Timothy N. Spence  
*Executive Vice President &*  
*Chief Strategy Officer*

Teresa J. Tanner  
*Executive Vice President &*  
*Chief Administrative Officer*

Tayfun Tuzun  
*Executive Vice President &*  
*Chief Financial Officer*

### REGIONAL PRESIDENTS

Ralph S. Michael III  
*(Group Regional President)*

Michael Ash  
Steven Alonso  
David A. Call  
Hal Clemmer  
Timothy Elsbrock  
*(Market President)*

David Girodat  
Thomas Heiks  
Jerry Kelsheimer  
Randy Koporc  
Robert W. LaClair  
Jordan A. Miller, Jr.  
Eric Smith  
*(Market President)*  
Robert A. Sullivan  
Thomas G. Welch, Jr.

### FIFTH THIRD BANCORP BOARD COMMITTEES

#### Audit Committee

Emerson L. Brumback, Chair  
Katherine B. Blackburn  
Jerry W. Burris  
Jewell D. Hoover  
Marsha C. Williams

#### Finance Committee

Gary R. Heminger, Chair  
Nicholas K. Akins  
Emerson L. Brumback  
Jewell D. Hoover  
Michael B. McCallister  
Marsha C. Williams

#### Human Capital and Compensation Committee

Michael B. McCallister, Chair  
Nicholas K. Akins  
Gary R. Heminger  
Hendrik G. Meijer

#### Nominating and Corporate Governance Committee

Nicholas K. Akins, Chair  
B. Evan Bayh III  
Jorge L. Benitez  
Gary R. Heminger  
Marsha C. Williams

#### Risk and Compliance Committee

Jewell D. Hoover, Chair  
B. Evan Bayh III  
Jorge L. Benitez  
Eileen A. Mallesch  
Hendrik G. Meijer  
Marsha C. Williams

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# 2016 financial highlights



## For the years ended Dec. 31

\$ in millions, except per share data

	2016	2015	2014
<b>Earnings and Dividends</b>			
Net income attributable to Bancorp	\$ 1,564	\$ 1,712	\$ 1,481
Common dividends declared	405	417	427
Preferred dividends declared	75	75	67
<b>Per Common Share</b>			
Earnings	\$ 1.95	\$ 2.03	\$ 1.68
Diluted earnings	1.93	2.01	1.66
Cash dividends	0.53	0.52	0.51
Book value per share	19.82	18.48	17.35
<b>At Year-End</b>			
Total Assets	\$ 142,177	\$ 141,048 <sup>†</sup>	\$ 138,670 <sup>†</sup>
Total Loans and Leases (incl. held-for-sale)	92,849	93,485	91,345
Deposits	103,821	103,205	101,712
Bancorp Shareholders' Equity	16,205	15,839	15,626
<b>Key Ratios</b>			
Net Interest Margin (FTE)	2.88%	2.88%	3.10%
Efficiency Ratio (FTE)	61.6%	57.6%	61.1%
CET1 Ratio (Basel III Transitional)*	10.39%	9.82%	N/A
Tier 1 Risk-Based Capital Ratio	11.50%	10.93%	10.83%
Total Risk-Based Capital Ratio	15.02%	14.13%	14.33%
<b>Actuals</b>			
Common Shares Outstanding (000's)	750,479	785,080	824,047
Banking Centers	1,191	1,254	1,302
ATMs	2,495	2,593	2,638
Full-Time Equivalent Employees	17,844	18,261	18,351

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

<sup>†</sup> Upon adoption of ASU 2015-03 on January 1, 2016, Consolidated Balance Sheets for the years ended 2015 and 2014 were adjusted to reflect the reclassification of \$34 and \$36, respectively, of debt issuance costs from other assets to long-term debt.

Stock Performance	2016			2015		
	High	Low	Dividends Declared Per Share	High	Low	Dividends Declared Per Share
Fourth Quarter	\$ 27.88	\$ 19.57	\$ 0.14	\$21.14	\$18.15	\$0.13
Third Quarter	21.11	16.26	0.13	21.93	18.21	0.13
Second Quarter	19.34	16.02	0.13	21.90	18.63	0.13
First Quarter	19.73	13.84	0.13	20.53	17.14	0.13

Fifth Third's common stock is traded on the NASDAQ® Global Select Market under the symbol "FITB."

## FIFTH THIRD BANCORP

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### Investor Relations

(For Inquiries of Shareholders Only)

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