FIFTH THIRD BANCORP
Form 10-Q
August 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2016

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

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

Fifth Third Center

Cincinnati, Ohio 45263

(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

There were 766,374,461 shares of the Registrant s common stock, without par value, outstanding as of July 31, 2016.

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FINANCIAL CONTENTS

FORWARD-LOOKING STATEMENTS

This report contains statements that we believe are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, potential, e forecast, projected, intends to, or may include other similar words or phrases such as believes, plans, trend, continue, remain, or similar expressions, or future or conditional verbs such as will, would, should, could, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to the risk factors set forth in our most recent Annual Report on Form 10-K as updated by our Quarterly Reports on Form 10-Q. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to us. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) general economic or real estate market conditions, either nationally or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, weaken or are less favorable than expected; (2) deteriorating credit quality; (3) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (4) changes in the interest rate environment reduce interest margins; (5) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (6) Fifth Third s ability to maintain required capital levels and adequate sources of funding and liquidity; (7) maintaining capital requirements and adequate sources of funding and liquidity may limit Fifth Third s operations and potential growth; (8) changes and trends in capital markets; (9) problems encountered by larger or similar financial institutions may adversely affect the banking industry and/or Fifth Third; (10) competitive pressures among depository institutions increase significantly; (11) effects of critical accounting policies and judgments; (12) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (13) legislative or regulatory changes or actions, or significant litigation, adversely affect Fifth Third, one or more acquired entities and/or the combined company or the businesses in which Fifth Third, one or more acquired entities and/or the combined company are engaged, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (14) ability to maintain favorable ratings from rating agencies; (15) fluctuation of Fifth Third s stock price; (16) ability to attract and retain key personnel; (17) ability to receive dividends from its subsidiaries; (18) potentially dilutive effect of future acquisitions on current shareholders ownership of Fifth Third; (19) effects of accounting or financial results of one or more acquired entities; (20) difficulties from Fifth Third s investment in, relationship with, and nature of the operations of Vantiv, LLC; (21) loss of income from any sale or potential sale of businesses (22) difficulties in separating the operations of any branches or other assets divested; (23) inability to achieve expected benefits from branch consolidations and planned sales within desired timeframes, if at all; (24) ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; and (25) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity.

Glossary of Abbreviations and Acronyms

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

ALCO: Asset Liability Management Committee

ALLL: Allowance for Loan and Lease Losses

AOCI: Accumulated Other Comprehensive Income

ARM: Adjustable Rate Mortgage

ASF: Available Stable Funding

ASU: Accounting Standards Update

ATM: Automated Teller Machine

BCBS: Basel Committee on Banking Supervision

BHC: Bank Holding Company

BOLI: Bank Owned Life Insurance

BPO: Broker Price Opinion

bps: Basis Points

CCAR: Comprehensive Capital Analysis and Review

CDC: Fifth Third Community Development Corporation

CET1: Common Equity Tier 1

CFE: Collateralized Financing Entity

CFPB: Consumer Financial Protection Bureau

C&I: Commercial and Industrial

HAMP: Home Affordable Modification Program

HARP: Home Affordable Refinance Program

HFS: Held for Sale

HQLA: High Quality Liquid Assets

IPO: Initial Public Offering

IRC: Internal Revenue Code

IRLC: Interest Rate Lock Commitment

ISDA: International Swaps and Derivatives Association, Inc.

LCR: Liquidity Coverage Ratio

LIBOR: London Interbank Offered Rate

LLC: Limited Liability Company

LTV: Loan-to-Value

MD&A: Management s Discussion and Analysis of Financial Condition and Results of Operations

MSA: Metro Statistical Area

MSR: Mortgage Servicing Right

N/A: Not Applicable

NII: Net Interest Income

DCF: Discounted Cash Flow

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

DIF: Deposit Insurance Fund

DTCC: Depository Trust & Clearing Corporation

ERISA: Employee Retirement Income Security Act

ERM: Enterprise Risk Management

ERMC: Enterprise Risk Management Committee

EVE: Economic Value of Equity

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

FFIEC: Federal Financial Institutions Examination Council

FHA: Federal Housing Administration

FHLB: Federal Home Loan Bank

FHLMC: Federal Home Loan Mortgage Corporation

FICO: Fair Isaac Corporation (credit rating)

FINRA: Financial Industry Regulatory Authority

FNMA: Federal National Mortgage Association

FRB: Federal Reserve Bank

FTE: Fully Taxable Equivalent

FTP: Funds Transfer Pricing

FTS: Fifth Third Securities

GDP: Gross Domestic Product

GNMA: Government National Mortgage Association

GSE: United States Government Sponsored Enterprise

NM: Not Meaningful

NSFR: Net Stable Funding Ratio

OAS: Option-Adjusted Spread

OCI: Other Comprehensive Income (Loss)

OREO: Other Real Estate Owned

OTTI: Other-Than-Temporary Impairment

PCA: Prompt Corrective Action

PMI: Private Mortgage Insurance

RSF: Required Stable Funding

SARs: Stock Appreciation Rights

SBA: Small Business Administration

SEC: United States Securities and Exchange Commission

TBA: To Be Announced

TDR: Troubled Debt Restructuring

TILA: Truth in Lending Act

TRA: Tax Receivable Agreement

TruPS: Trust Preferred Securities

U.S.: United States of America

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

VA: United States Department of Veteran Affairs

VIE: Variable Interest Entity

VRDN: Variable Rate Demand Note

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 2)

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

TABLE 1: Selected Financial Data

	For the three months ended June 30,			For the six months ended June 30,		
($ in millions, except for per share data)	**2016**	2015	% Change	**2016**	2015	% Change
Income Statement Data						
Net interest income (U.S. GAAP)	$ **902**	887	2	$ **1,805**	1,734	4
Net interest income (FTE)[(a)(b)]	**908**	892	2	**1,817**	1,744	4
Noninterest income	**599**	556	8	**1,235**	1,187	4
Total revenue[(a)]	**1,507**	1,448	4	**3,052**	2,931	4
Provision for loan and lease losses	**91**	79	15	**210**	148	42
Noninterest expense	**983**	947	4	**1,968**	1,871	5
Net income attributable to Bancorp	**333**	315	6	**660**	676	(2)
Net income available to common shareholders	**310**	292	6	**622**	638	(3)
Common Share Data						
Earnings per share basic	$ **0.40**	0.36	11	$ **0.80**	0.78	3
Earnings per share diluted	**0.40**	0.36	11	**0.80**	0.77	4
Cash dividends declared per common share	**0.13**	0.13	-	**0.26**	0.26	-
Book value per share	**20.09**	17.62	14	**20.09**	17.62	14
Market value per share	**17.59**	20.82	(16)	**17.59**	20.82	(16)
Financial Ratios						
Return on average assets	**0.94** %	0.90	4	**0.93** %	0.98	(5)
Return on average common equity	**8.2**	8.1	1	**8.3**	8.9	(7)
Return on average tangible common equity[(b)]	**9.7**	9.7	-	**9.8**	10.7	(8)
Dividend payout ratio	**32.5**	36.1	(10)	**32.5**	33.3	(2)
Average total Bancorp shareholders equity as a percent of average assets	**11.60**	11.32	2	**11.59**	11.41	2
Tangible common equity as a percent of tangible assets[(b)(h)]	**8.64**	8.33	4	**8.64**	8.33	4
Net interest margin[(a)]	**2.88**	2.90	(1)	**2.89**	2.88	-

Efficiency[a]	**65.3**	65.4	-	**64.5**	63.8	1
Credit Quality						
Net losses charged-off	$ **87**	86	1	$ **183**	177	3
Net losses charged-off as a percent of average portfolio loans and leases	**0.37** %	0.37	-	**0.39** %	0.39	-
ALLL as a percent of portfolio loans and leases	**1.38**	1.39	(1)	**1.38**	1.39	(1)
Allowance for credit losses as a percent of portfolio loans and leases[c]	**1.54**	1.54	-	**1.54**	1.54	-
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO	**0.86**	0.67	28	**0.86**	0.67	28
Average Balances						
Loans and leases, including held for sale	$ **94,807**	92,739	2	$ **94,443**	92,202	2
Total securities and other short-term investments	**32,040**	30,563	5	**31,808**	29,805	7
Total assets	**142,920**	139,960	2	**142,251**	138,795	2
Transaction deposits[d]	**94,929**	96,460	(2)	**94,806**	95,322	(1)
Core deposits[e]	**98,973**	100,534	(2)	**98,845**	99,370	(1)
Wholesale funding[f]	**23,084**	18,330	26	**22,509**	18,599	21
Bancorp shareholders equity	**16,584**	15,841	5	**16,479**	15,831	4
Regulatory Capital Ratios			**Basel III Transitional[g]**			
CET1 capital	**9.94** %	9.42[i]	6	**9.94** %	9.42[i]	6
Tier I risk-based capital	**11.03**	10.51[i]	5	**11.03**	10.51[i]	5
Total risk-based capital	**14.66**	13.69[i]	7	**14.66**	13.69[i]	7
Tier I leverage	**9.64**	9.44[i]	2	**9.64**	9.44[i]	2
			Basel III Fully Phased-In			
CET1 capital[b][g]	**9.86**	9.31[i]	6	**9.86**	9.31[i]	6

*(a) Amounts presented on an FTE basis. The FTE adjustment for the three months ended **June 30, 2016** and 2015 was **$6** and $5, respectively, and for the six months ended **June 30, 2016** and 2015 was **$12** and $10, respectively.*

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

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

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

(e) Includes transaction deposits and other time deposits.

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

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

(h) Excludes unrealized gains and losses.

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

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

OVERVIEW

Fifth Third Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At June 30, 2016, the Bancorp had $143.6 billion in assets and operated 1,191 full-service banking centers, including 94 Bank Mart® locations, open seven days a week, inside select grocery stores, and 2,514 ATMs in ten states throughout the Midwestern and Southeastern regions of the U.S. The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Wealth and Asset Management. The Bancorp also has an approximate 18% interest in Vantiv Holding, LLC. The carrying value of the Bancorp s investment in Vantiv Holding, LLC was $390 million at June 30, 2016.

This overview of MD&A highlights selected information in the financial results of the Bancorp and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting policies and estimates, you should carefully read this entire document as well as the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015. Each of these items could have an impact on the Bancorp s financial condition, results of operations and cash flows. In addition, refer to the Glossary of Abbreviations and Acronyms in this report for a list of terms included as a tool for the reader of this quarterly report on Form 10-Q. The abbreviations and acronyms identified therein are used throughout this MD&A, as well as the Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements.

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

The Bancorp s revenues are dependent on both net interest income and noninterest income. For both the three and six months ended June 30, 2016, net interest income on an FTE basis and noninterest income provided 60% and 40% of total revenue, respectively. The Bancorp derives the majority of its revenues within the U.S. from customers domiciled in the U.S. Revenue from foreign countries and external customers domiciled in foreign countries was immaterial to the Condensed Consolidated Financial Statements for both the three and six months ended June 30, 2016. Changes in interest rates, credit quality, economic trends and the capital markets are primary factors that drive the performance of the Bancorp. As discussed later in the Risk Management section of MD&A, risk identification, measurement, monitoring, control and reporting are important to the management of risk and to the financial performance and capital strength of the Bancorp.

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

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

Branch Consolidation and Sales Plan

The Bancorp monitors changing customer preferences associated with the channels it uses for banking transactions to evaluate the efficiency, competitiveness and quality of the customer service experience in its consumer distribution network. As part of this ongoing assessment, the Bancorp may determine that it is no longer fully committed to maintaining full-service branches at certain of its existing banking center locations. Similarly, the Bancorp may also determine that it is no longer fully committed to building banking centers on certain parcels of land which had previously been held for future branch expansion. On June 16, 2015, the Bancorp s Board of Directors authorized management to pursue a plan to further develop its distribution strategy, including a plan to consolidate and/or sell 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). The Bancorp expects to receive approximately $60 million in annual savings from operating expenses upon completion of the Branch Consolidation and Sales Plan. For more information on the Branch Consolidation and Sales Plan, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

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

On January 29, 2016, the Bancorp closed the previously announced sale in the St. Louis MSA to Great Southern Bank. The sale included loans, premises and equipment and deposits with aggregate carrying amounts of $158 million, $18 million and $228 million, respectively.

The Bancorp recorded a gain on the sale of $8 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income.

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

On April 22, 2016, the Bancorp closed the previously announced sale in the Pittsburgh MSA to First National Bank of Pennsylvania. The sale included loans, premises and equipment and deposits with aggregate carrying values of approximately $99 million, $16 million and $302 million, respectively. The Bancorp recorded a gain on the sale of $11 million which was recorded in other noninterest income in the Condensed Consolidated Statements of Income.

Pursuant to the Branch Consolidation and Sales Plan, as of June 30, 2016, the Bancorp intended to consolidate and/or sell 27 operating branch locations and to sell an additional 20 parcels of undeveloped land that had been acquired by the Bancorp for future branch expansion. These operating branches and parcels of undeveloped land represent $20 million and $9 million of land and improvements and buildings, respectively, included in bank premises and equipment in the Condensed Consolidated Balance Sheets and were classified as held for sale as of June 30, 2016.

Accelerated Share Repurchase Transactions

During the six months ended June 30, 2016, the Bancorp entered into or settled 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 14 of the Notes to Condensed Consolidated Financial Statements. For a summary of the Bancorp s accelerated share repurchase transactions that were entered into or settled during the six months ended June 30, 2016, 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
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

For further information on a subsequent event related to capital actions, refer to Note 22 of the Notes to Condensed Consolidated Financial Statements.

Open Market Share Repurchase Transactions

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

Senior and Subordinated Notes Offerings

On March 15, 2016, the Bank issued and sold $1.5 billion in aggregate principal amount of unsecured bank notes. The bank notes consisted of $750 million of 2.30% senior fixed-rate notes, with a maturity of three years, due on March 15, 2019; and $750 million of 3.85% subordinated fixed-rate notes, with a maturity of ten years, due on March 15, 2026. These bank notes will be redeemable by the Bank, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

On June 14, 2016, the Bank issued and sold $1.3 billion of 2.25% unsecured senior fixed-rate notes, with a maturity of five years, due on June 14, 2021. These bank notes will be redeemable by the Bank, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the redemption date.

Legislative and Regulatory Developments

During the first quarter of 2016, the FDIC issued a final rule implementing a 4.5 bps surcharge on the quarterly FDIC insurance assessments of insured depository institutions with total consolidated assets of $10 billion or more. The surcharge will take effect at the same time the FDIC is required to lower the regular FDIC insurance assessments by approximately 2 bps under a rule adopted by the FDIC in 2011 which is triggered by the DIF reserve ratio reaching 1.15% of insured deposits. The surcharge will take effect on July 1, 2016 if the DIF reserve ratio reaches 1.15% before July 1, 2016; otherwise it will begin the first day of the calendar quarter after the reserve ratio reaches 1.15%. Surcharges will continue through the quarter that the reserve ratio first reaches or exceeds 1.35% of insured deposits, but not later than December 31, 2018. If the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall assessment on March 31, 2019, on insured depository institutions with total consolidated assets of $10 billion or more. The FDIC has announced they expect that surcharges will commence in the second half of 2016 and that they should be sufficient to raise the DIF reserve ratio to 1.35% in approximately eight quarters. Fifth Third estimates the announced changes to the FDIC assessments will result in a net increase in its FDIC insurance expense of approximately $23 million on an annual basis.

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

On June 29, 2016, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2016 CCAR. For BHCs that proposed capital distributions in their plans, the FRB either objected to the plan or provided a non-objection whereby the FRB permitted the proposed capital distributions.

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

The FRB indicated to the Bancorp that it did not object to the following capital actions for the period beginning July 1, 2016 and ending June 30, 2017:

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

For more information on the 2016 CCAR results refer to the Capital Management subsection of the Risk Management section of MD&A.

Fifth Third offers qualified deposit customers a deposit advance product if they choose to avail themselves of this product to meet short-term, small-dollar financial needs. Fifth Third s deposit advance product is designed to fully comply with the applicable federal and state laws and use of this product is subject to strict eligibility requirements and advance restriction guidelines to limit dependency on this product as a borrowing source. The Bancorp s deposit advance balances are included in other consumer loans and leases in the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A and in Table 8 in the Statements of Income Analysis section of MD&A. On January 17, 2014, given developments in industry practice, Fifth Third announced that it would no longer enroll new customers in its deposit advance product and expected to phase out the service to existing customers by the end of 2014. To avoid a disruption to its existing customers during the extension period while the banking industry awaits further regulatory guidance on the deposit advance product, on November 3, 2014, Fifth Third announced changes to its current deposit advance product for existing customers beginning January 1, 2015, including a lower transaction fee, an extended repayment period and a reduced maximum advance period. On June 2, 2016, the CFPB issued proposed rules to create additional consumer protections for certain consumer credit products such as payday loans, vehicle title loans and certain high-cost installment loans. Fifth Third is continuing to offer the service to existing deposit advance product customers and will address how best to meet customers need for a small dollar, short-term credit product when the rules are finalized.

In December 2013, the U.S. banking agencies issued final rules to implement section 619 of the DFA, known as the Volcker Rule, which places limitations on banking organizations ability to (i) engage in short-term proprietary trading and (ii) own, sponsor or have certain relationships with certain private equity funds, hedge funds, and other private funds (collectively covered funds). On July 7, 2016, the FRB announced a third extension of the conformance period, providing the industry until July 21, 2017, to conform investments in and relationships with covered funds that were in place prior to December 31, 2013. The extension does not apply to investments in and relationships with a covered fund made after December 31, 2013 or to short-term proprietary trading activities. The Volcker Rule prohibits banking organizations from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on these instruments for their own account. The Volcker Rule also restricts banking organizations from owning, sponsoring or having certain relationships with covered funds, as well as holding certain collateralized loan obligations that are deemed to contain ownership interests. The Volcker Rule provides several exclusions and exemptions for certain activities, such as underwriting, market making, hedging, trading in certain government obligations and organizing and offering a private fund. Fifth Third does not sponsor any private funds that, under the Volcker Rule, it is prohibited from sponsoring. At June 30, 2016, the Bancorp had approximately $164 million in interests and approximately $29 million in binding commitments to invest in private equity funds that are affected by the Volcker Rule. It is expected that over time the Bancorp may need to dispose of these investments, however no formal plan to sell has been approved as of June 30, 2016.

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

The FRB conducted a regularly scheduled examination covering 2011 through 2013 to determine the 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 is expected to commence during the fourth quarter of 2016.

Earnings Summary

The Bancorp s net income available to common shareholders for the second quarter of 2016 was $310 million, or $0.40 per diluted share, which was net of $23 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the second quarter of 2015 was $292 million, or $0.36 per diluted share, which was net of $23 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the six months ended June 30, 2016 was $622 million, or $0.80 per diluted share, which was net of $38 million in preferred stock dividends. For the six months ended June 30, 2015, the Bancorp s net income available to common shareholders was $638 million, or $0.77 per diluted share, which was net of $38 million in preferred stock dividends. Pre-provision net revenue was $518 million and $1.1 billion for the three and six months ended June 30, 2016, respectively, compared to $496 million and $1.1 billion for the same periods in 2015. Pre-provision net revenue is a non-GAAP measure. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

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

Net interest income on an FTE basis was $908 million and $1.8 billion for the three and six months ended June 30, 2016, respectively, an increase of $16 million and $73 million compared to the same periods in the prior year. Net interest income was positively impacted by increases in average taxable securities and average loans and leases. Additionally, net interest income was positively impacted by the decision of the Federal Open Market Committee in December 2015 to raise the target range of the federal funds rate 25 bps. These positive impacts were partially offset by increases in average long-term debt coupled with decreases in the net interest rate spread. Net interest margin on an FTE basis was 2.88% and 2.89% for the three and six months ended June 30, 2016, respectively, compared to 2.90% and 2.88%, respectively, for the same periods in the prior year.

Noninterest income increased $43 million for the three months ended June 30, 2016 compared to the same period in the prior year primarily due to an increase in other noninterest income partially offset by a decrease in mortgage banking net revenue. Noninterest income increased $48 million for the six months ended June 30, 2016 compared to the same period in the prior year primarily due to increases in other noninterest income and corporate banking revenue partially offset by a decrease in mortgage banking net revenue. Other noninterest income increased $79 million and $50 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods included the impact of impairment charges on bank premises and equipment that were recognized during the three and six months ended June 30, 2015. The three and six months ended June 30, 2016 also included the impact of gains on the sale of certain branches as part of the previously announced Branch Consolidation and Sales Plan and the gain on the sale of the agent bankcard loan portfolio partially offset with $50 million of negative valuation adjustments related to the Visa total return swap. Additionally, the increase in other noninterest income for the six months ended June 30, 2016 was partially offset by the impact of a gain on the sale of residential mortgage loans classified as TDRs during the first quarter of 2015.

Mortgage banking net revenue decreased $42 million and $49 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year primarily due to decreases in net mortgage servicing revenue partially offset by increases in origination fees and gains on loan sales. Corporate banking revenue increased $43 million for the six months ended June 30, 2016 compared to the same period in the prior year primarily driven by increases in lease remarketing fees and syndication fees partially offset by decreases in business lending fees and foreign exchange fees.

Noninterest expense increased $36 million and $97 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits) and other noninterest expense. Personnel costs increased $31 million and $67 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year. The increase for both periods was driven by increased base compensation, primarily due to personnel additions in risk and compliance and information technology, and increased long term incentive compensation due to retirement eligibility changes. The increase for the six months ended was also driven by higher retirement and severance costs related to the Bancorp s voluntary early retirement program. Other noninterest expense increased $9 million for the three months ended June 30, 2016 compared to the same period in the prior year primarily due to increases in impairment on affordable housing investments, losses and adjustments and the provision for the reserve for unfunded commitments partially offset by a decrease in loan and lease expense. Other noninterest expense increased $36 million for the six months ended June 30, 2016 compared to the same period in the prior year primarily due to increases in FDIC insurance and other taxes, the provision for the reserve for unfunded commitments, losses and adjustments and impairment on affordable housing investments partially offset by decreases in loan and lease expense and donations expense.

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 $91 million and $210 million for the three and six months ended June 30, 2016, respectively, compared to $79 million and $148 million for the same periods in 2015. Net losses charged-off as a percent of average portfolio loans and leases were 0.37% and 0.39% for both the three and six months ended June 30, 2016 and 2015, respectively. At June 30, 2016, nonperforming portfolio assets as a percent of portfolio loans and leases and OREO increased to 0.86% 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 June 30, 2016, as calculated under the Basel III transition provisions, the CET1 capital ratio was 9.94%, the Tier I risk-based capital ratio was 11.03%, the Total risk-based capital ratio was 14.66% and the Tier I leverage ratio was 9.64%.

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

NON-GAAP FINANCIAL MEASURES

The following are non-GAAP measures which are important to the reader of the Condensed Consolidated Financial Statements but should be supplemental to primary U.S. GAAP measures.

The FTE basis adjusts for the tax-favored status of income from certain loans and securities held by the Bancorp that are not taxable for federal income tax purposes. The Bancorp believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

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

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

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2016**	2015	**2016**	2015
Net interest income (U.S. GAAP)	**$ 902**	887	**1,805**	1,734
Add: FTE adjustment	**6**	5	**12**	10
Net interest income on an FTE basis (1)	**$ 908**	892	**1,817**	1,744
Noninterest income (2)	**$ 599**	556	**1,235**	1,187
Noninterest expense (3)	**983**	947	**1,968**	1,871
Efficiency ratio (3) / (1) + (2)	**65.3 %**	65.4	**64.5**	63.8

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

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

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2016**	2015	**2016**	2015
Income before income taxes (U.S. GAAP)	**$ 427**	417	**862**	902
Add: FTE adjustment	**6**	5	**12**	10

Income before income taxes on an FTE basis	$ **433**	422	**874**	912

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

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

TABLE 5: Non-GAAP Financial Measures - Pre-Provision Net Revenue

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2016**	2015	**2016**	2015
Net interest income (U.S. GAAP)	$ **902**	887	**1,805**	1,734
Add: Noninterest income	**599**	556	**1,235**	1,187
Less: Noninterest expense	**(983)**	(947)	**(1,968)**	(1,871)
Pre-provision net revenue	$ **518**	496	**1,072**	1,050

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

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.

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

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

($ in millions)	For the three months ended June 30, **2016**	2015	For the six months ended June 30, **2016**	2015
Net income available to common shareholders (U.S. GAAP)	$ **310**	292	**622**	638
Add: Intangible amortization, net of tax	**-**	-	**1**	1
Tangible net income available to common shareholders	$ **310**	292	**623**	639
Tangible net income available to common shareholders (annualized) (1)	**1,247**	1,171	**1,246**	1,278
Average Bancorp shareholders equity (U.S. GAAP)	$ **16,584**	15,841	**16,479**	15,831
Less: Average preferred stock	**(1,331)**	(1,331)	**(1,331)**	(1,331)
Average goodwill	**(2,416)**	(2,416)	**(2,416)**	(2,416)
Average intangible assets and other servicing rights	**(11)**	(15)	**(12)**	(15)
Average tangible common equity (2)	$ **12,826**	12,079	**12,720**	12,069
Return on average tangible common equity (1) / (2)	**9.7** %	9.7	**9.8**	10.6

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

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

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

TABLE 7: Non-GAAP Financial Measures - Capital Ratios

As of ($ in millions)		**June 30, 2016**	December 31, 2015	
Total Bancorp Shareholders Equity (U.S. GAAP)	$	**16,726**	15,839	
Less: Preferred stock		**(1,331)**	(1,331)	
Goodwill		**(2,416)**	(2,416)	
Intangible assets and other servicing rights		**(11)**	(13)	
Tangible common equity, including unrealized gains / losses		**12,968**	12,079	
Less: AOCI		**(889)**	(197)	
Tangible common equity, excluding unrealized gains / losses (1)		**12,079**	11,882	
Add: Preferred stock		**1,331**	1,331	
Tangible equity (2)	$	**13,410**	13,213	
Total Assets (U.S. GAAP)	$	**143,625**	141,048	
Less: Goodwill		**(2,416)**	(2,416)	
Intangible assets and other servicing rights		**(11)**	(13)	
AOCI, before tax		**(1,368)**	(303)	
Tangible assets, excluding unrealized gains / losses (3)	$	**139,830**	138,316	
Ratios:				
Tangible equity as a percentage of tangible assets (2) / (3)[d]		**9.59 %**	9.55	
Tangible common equity as a percentage of tangible assets (1) / (3)[d]		**8.64**	8.59	
Basel III Final Rule - Transition to Fully Phased-In				
CET1 capital (transitional)	$	**12,112**	11,917	
Less: Adjustments to CET1 capital from transitional to fully phased-in[a]		**(4)**	(8)	
CET1 capital (fully phased-in) (4)		**12,108**	11,909	
Risk-weighted assets (transitional)[b]		**121,824**	121,290	(e)
Add: Adjustments to risk-weighted assets from transitional to fully phased-in[c]		**932**	1,178	
Risk-weighted assets (fully phased-in) (5)	$	**122,756**	122,468	(e)
CET1 capital ratio under Basel III Final Rule (fully phased-in) (4) / (5)		**9.86 %**	9.72	(e)

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

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

(c) Primarily relates to higher risk weighting for MSRs.
(d) Excludes unrealized gains and losses.
(e) Balances not restated for the adoption of the amended guidance of ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further information.

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

RECENT ACCOUNTING STANDARDS

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

CRITICAL ACCOUNTING POLICIES

The Condensed Consolidated Financial Statements are prepared in accordance with U.S. GAAP. Certain accounting policies require management to exercise judgment in determining methodologies, economic assumptions and estimates that may materially affect the Bancorp s financial position, results of operations and cash flows. The Bancorp s critical accounting policies include the accounting for the ALLL, reserve for unfunded commitments, income taxes, valuation of servicing rights, fair value measurements, goodwill and legal contingencies. These accounting policies are discussed in detail in the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2015. No material changes were made to the valuation techniques or models during the six months ended June 30, 2016.

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STATEMENTS OF INCOME ANALYSIS

Net Interest Income

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

Tables 8 and 9 present the components of net interest income, net interest margin and net interest rate spread for the three and six months ended June 30, 2016 and 2015, as well as the relative impact of changes in the balance sheet and changes in interest rates on net interest income. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale and other securities included in other assets.

Net interest income on an FTE basis was $908 million and $1.8 billion for the three and six months ended June 30, 2016, respectively, an increase of $16 million and $73 million compared to the same periods in the prior year. Net interest income was positively impacted by increases in average taxable securities of $2.7 billion and $4.6 billion for the three and six months ended June 30, 2016, respectively, and increases in average loans and leases of $2.1 billion and $2.2 billion for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year. Additionally, net interest income was positively impacted by the decision of the Federal Open Market Committee in December 2015 to raise the target range of the federal funds rate 25 bps. These positive impacts were partially offset by increases in average long-term debt of $1.6 billion and $1.1 billion for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year coupled with decreases in the net interest rate spread to 2.67% and 2.68% during the three and six months ended June 30, 2016, respectively, from 2.72% and 2.70% in the same periods in the prior year. These decreases in the net interest rate spread were due to an 11 bps and 8 bps increase in the rates paid on average interest-bearing liabilities for the three and six months ended June 30, 2016, respectively, partially offset by a 6 bps increase in yields on average interest-earning assets for both the three and six months ended June 30, 2016 compared to the same periods in the prior year.

Net interest margin on an FTE basis was 2.88% and 2.89% for the three and six months ended June 30, 2016, respectively, compared to 2.90% and 2.88% for the three and six months ended June 30, 2015, respectively. The decrease from the three months ended June 30, 2015 was driven primarily by the aforementioned decrease in net interest rate spread coupled with an increase of $3.5 billion in average interest-earning assets partially offset by an increase in average free funding balances for the three months ended June 30, 2016. The increase for the six months ended June 30, 2016 was driven primarily by an increase in average free funding balances compared to the same period in the prior year partially offset by an increase of $4.2 billion in average interest-earning assets as well as the aforementioned decrease in net interest rate spread. The increase in average free funding balances for both periods was driven by an increase in average demand deposits of $528 million and $981 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year as well as an increase in average shareholders equity of $735 million and $641 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year.

Interest income on an FTE basis from loans and leases increased $27 million and $55 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year. The increases were primarily due to increases in average loans and leases of $2.1 billion and $2.2 billion for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year driven primarily by increases in average commercial and industrial loans, average commercial construction loans and average residential mortgage loans partially offset by decreases in average home equity and average automobile loans. Yields on average loans and leases increased 4 bps and 3 bps for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year primarily driven by an increase in yields on average commercial and industrial loans and average commercial construction loans. For more information on the Bancorp s loan and lease portfolio, refer to the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A. Interest income from investment securities and other short-term investments increased $17 million and $59 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year primarily as a result of the aforementioned increases in average taxable securities.

Interest expense on core deposits increased $3 million and $1 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year. These increases were primarily due to increases in the cost of average interest-bearing core deposits to 26 bps for both the three and six months ended June 30, 2016 from 24 bps and 25 bps for the three and six months ended June 30, 2015, respectively. The increase in the cost of average interest-bearing core deposits for both periods was primarily due to increases in the cost of average interest checking deposits. 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 $25 million and $40 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in the prior year. The increases for the three and six months ended June 30, 2016 were primarily due to increases of 32 bps and 25 bps, respectively, in the rates paid on average long-term debt coupled with the aforementioned increases 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. During the three and six months ended June 30, 2016, average wholesale funding represented 27% and 26%, respectively, of average interest-bearing liabilities compared to 22% during both the three and six months ended June 30, 2015. For more information on the Bancorp s interest rate risk management, including estimated earnings sensitivity to changes in market interest rates, refer to the Market Risk Management section of MD&A.

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

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

For the three months ended	June 30, 2016			June 30, 2015			Attribution of Change in Net Interest Income(a)		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets:									
Interest-earning assets:									
Loans and leases:(b)									
Commercial and industrial loans	**$ 43,878**	**354**	**3.25 %**	$ 42,554	334	3.14 %	$ 9	11	20
Commercial mortgage loans	**6,835**	**55**	**3.28**	7,149	57	3.22	(3)	1	(2)
Commercial construction loans	**3,551**	**30**	**3.36**	2,549	20	3.17	9	1	10
Commercial leases	**3,904**	**27**	**2.71**	3,776	27	2.83	1	(1)	-
Total commercial loans and leases	**58,168**	**466**	**3.22**	56,028	438	3.13	16	12	28
Residential mortgage loans	**14,842**	**132**	**3.57**	13,375	123	3.69	13	(4)	9
Home equity	**8,059**	**76**	**3.81**	8,655	79	3.66	(6)	3	(3)
Automobile loans	**10,887**	**73**	**2.68**	11,902	79	2.65	(7)	1	(6)
Credit card	**2,198**	**57**	**10.47**	2,296	59	10.33	(3)	1	(2)
Other consumer loans and leases	**653**	**10**	**6.36**	483	9	8.49	4	(3)	1
Total consumer loans and leases	**36,639**	**348**	**3.82**	36,711	349	3.82	1	(2)	(1)
Total loans and leases	**$ 94,807**	**814**	**3.45 %**	$ 92,739	787	3.41 %	$ 17	10	27
Securities:									
Taxable	**30,002**	**235**	**3.16**	27,344	218	3.20	20	(3)	17
Exempt from income taxes(b)	**85**	**1**	**4.09**	59	1	4.82	-	-	-
Other short-term investments	**1,953**	**2**	**0.43**	3,160	2	0.25	(1)	1	-
Total interest-earning assets	**$ 126,847**	**1,052**	**3.34 %**	$ 123,302	1,008	3.28 %	$ 36	8	44
Cash and due from banks	**2,228**			2,636					
Other assets	**15,140**			15,322					
	(1,295)			(1,300)					

Allowance for loan and lease losses									
Total assets	**$ 142,920**			$ 139,960					
Liabilities and Equity:									
Interest-bearing liabilities:									
Interest checking deposits	**$ 24,714**	**14**	**0.22 %**	$ 26,894	12	0.19 %	$ -	2	2
Savings deposits	**14,576**	**2**	**0.05**	15,156	3	0.05	(1)	-	(1)
Money market deposits	**19,243**	**13**	**0.26**	18,071	10	0.23	2	1	3
Foreign office deposits	**484**	**-**	**0.15**	955	-	0.14	-	-	-
Other time deposits	**4,044**	**12**	**1.24**	4,074	13	1.24	(1)	-	(1)
Total interest-bearing core deposits	**63,061**	**41**	**0.26**	65,150	38	0.24	-	3	3
Certificates $100,000 and over	**2,819**	**9**	**1.29**	2,558	8	1.24	1	-	1
Other deposits	**467**	**-**	**0.40**	-	-	-	-	-	-
Federal funds purchased	**693**	**1**	**0.39**	326	-	0.12	1	-	1
Other short-term borrowings	**3,754**	**3**	**0.36**	1,705	1	0.12	-	2	2
Long-term debt	**15,351**	**90**	**2.36**	13,741	69	2.04	10	11	21
Total interest-bearing liabilities	**$ 86,145**	**144**	**0.67 %**	$ 83,480	116	0.56 %	$ 12	16	28
Demand deposits	**35,912**			35,384					
Other liabilities	**4,247**			5,215					
Total liabilities	**$ 126,304**			$ 124,079					
Total equity	**$ 16,616**			$ 15,881					
Total liabilities and equity	**$ 142,920**			$ 139,960					
Net interest income (FTE)		**$ 908**			$ 892		$ 24	(8)	16
Net interest margin (FTE)			**2.88 %**			2.90 %			
Net interest rate spread (FTE)			**2.67**			2.72			
Interest-bearing liabilities to interest-earning assets			**67.91**			67.70			

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

*(b) The FTE adjustments included in the above table were **$6** and $5 for the three months ended **June 30, 2016** and 2015, respectively.*

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

TABLE 9: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE basis

For the six months ended	June 30, 2016			June 30, 2015			Attribution of Change in Net Interest Income[a]		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets:									
Interest-earning assets:									
Loans and leases:[b]									
Commercial and industrial loans	**$ 43,503**	**701**	**3.24 %**	$ 42,011	656	3.15 %	$ 26	19	45
Commercial mortgage loans	**6,871**	**112**	**3.28**	7,198	116	3.25	(5)	1	(4)
Commercial construction loans	**3,424**	**57**	**3.37**	2,375	38	3.20	17	2	19
Commercial leases	**3,889**	**53**	**2.74**	3,746	53	2.87	2	(2)	-
Total commercial loans and leases	**57,687**	**923**	**3.22**	55,330	863	3.15	40	20	60
Residential mortgage loans	**14,623**	**262**	**3.60**	13,444	250	3.76	23	(11)	12
Home equity	**8,150**	**154**	**3.80**	8,728	158	3.66	(10)	6	(4)
Automobile loans	**11,086**	**147**	**2.66**	11,918	158	2.67	(11)	-	(11)
Credit card	**2,238**	**118**	**10.56**	2,308	118	10.28	(3)	3	-
Other consumer loans and leases	**659**	**21**	**6.31**	474	23	9.61	7	(9)	(2)
Total consumer loans and leases	**36,756**	**702**	**3.83**	36,872	707	3.86	6	(11)	(5)
Total loans and leases	**$ 94,443**	**1,625**	**3.46 %**	$ 92,202	1,570	3.43 %	$ 46	9	55
Securities:									
Taxable	**29,811**	**467**	**3.15**	25,235	406	3.25	73	(12)	61
Exempt from income taxes[b]	**82**	**1**	**4.20**	59	1	5.03	-	-	-
Other short-term investments	**1,915**	**4**	**0.42**	4,511	6	0.25	(5)	3	(2)
Total interest-earning assets	**$ 126,251**	**2,097**	**3.34 %**	$ 122,007	1,983	3.28 %	$ 114	-	114
Cash and due from banks	**2,282**			2,733					
Other assets	**15,002**			15,366					
Allowance for loan and lease losses	**(1,284)**			(1,311)					
Total assets	**$ 142,251**			$ 138,795					
Liabilities and Equity:									
Interest-bearing liabilities:									
Interest checking deposits	**$ 25,227**	**28**	**0.23 %**	$ 26,889	26	0.20 %	$ (2)	4	2
Savings deposits	**14,589**	**4**	**0.05**	15,165	5	0.06	-	(1)	(1)
Money market deposits	**18,949**	**24**	**0.25**	17,784	24	0.28	2	(2)	-
Foreign office deposits	**484**	**-**	**0.15**	908	1	0.17	(1)	-	(1