



Banks

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 J.J.B. Hilliard, W.L. Lyons, LLC
 April 26, 2017

COMPANY UPDATE/ ESTIMATES CHANGE

Key Metrics

FITB - NASDAQ (as of 04/25/17)	\$25.01
Price Target	\$27.00
52-Week Range	\$16.14-\$28.97
Shares Outstanding (mm)	750.1
Market Cap. (\$mm)	\$18,761
3-Mo. Average Daily Volume (000)	6,059.2
Institutional Ownership	84.8%
Tangible Equity / Tangible Assets	9.5%
ROE	9.4%
Tangible Book Value Per Share	\$16.89
Price/Tangible Book Value	148.1%
Dividend Yield	2.2%
Price/LTM Earnings	13.1x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.40	\$0.37	\$0.38A	\$0.44	\$0.46
2Q	\$0.39	\$0.44	\$0.41	\$0.51	\$0.51
3Q	\$0.43	\$0.46	\$0.47	\$0.55	\$0.58
4Q	\$0.49	\$0.49	\$0.51	\$0.59	\$0.62
Year	\$1.72	\$1.76	\$1.77	\$2.09	\$2.16
P/E	14.6x		14.1x		11.6x

Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.13	\$0.13A	0.0	\$0.15
2Q	\$0.13	\$0.13	0.0	\$0.15
3Q	\$0.13	\$0.15	15.4	\$0.19
4Q	\$0.13	\$0.15	15.4	\$0.19
Year	\$0.52	\$0.56	7.7	\$0.68

Company Description - Fifth Third Bancorp is a commercial banking organization headquartered in Cincinnati, Ohio. The company's branch network encompasses Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Pennsylvania, Missouri, Georgia and North Carolina. Fifth Third operates four main businesses: commercial banking, branch banking, consumer lending and investment advisory. FITB is among the largest money managers in the Midwest, with more than \$300 billion in assets under management or administration.

Fifth Third Bancorp

FITB – NASDAQ – Neutral – 1

1Q17 Review; Reaffirming Neutral Rating

- **Earnings Results:** FITB reported GAAP and operating EPS of \$0.38, which were \$0.01 ahead of our estimate and in line with the Street consensus.
- **Positive Highlights:** Net interest income rose 3.3% linked-quarter (LQ) to \$939 million, as 16 bps of net interest margin expansion to 3.02% more than offset a 0.5% decline in average earning assets and two fewer days in the quarter. We had projected net interest income of \$926 million and a 2.95% margin.
 Operating noninterest expense climbed 2.7% LQ to \$986 million. However, results were below our estimate of \$1.0 billion.
- **Negative Highlights:** Operating noninterest income fell 15.6% to \$523 million on a LQ basis versus our projection of \$564 million. The primary driver of the variance between results and our estimate was a 26.7% decline in corporate banking revenue.
 End-of-period loans decreased 0.7% LQ, while average loans were 1.3% lower. We had projected end-of-period loan growth of 0.6%.
 The provision for loan losses increased \$20 million to \$74 million sequentially, but was below our estimate of \$84 million. The net charge-off ratio rose nine bps to 0.40%, which exceeded our estimate of 0.38%.
- **Estimates:** We are increasing our 2017 and 2018 operating EPS estimates to \$1.77 and \$2.16 from \$1.76 and \$2.09, respectively. Given the increased uncertainties regarding regulatory and tax reform, we are reducing our price target by \$1.00 to \$27.00. We reiterate our Neutral rating.

Note Important Disclosures on pages 4 and 5
Note Analyst Certification on page 4

OTHER TAKEAWAYS & VALUATION

- The LQ decline in corporate banking revenue was primarily due to a \$31 million impairment related to oilfield services exposure.
- The company is continuing to reduce exposure to auto loans, with outstanding balances down 4% LQ and 13% from the year-ago period.
- Fifth Third intends to maintain its available-for-sale investment portfolio at its current level in 2017.
- Management offered the following guidance for 2017:
 - 2% commercial loan growth, including the impact of exiting \$900 million of commercial relationships that don't meet the company's desired risk/return profile
 - Mid-single digit consumer & mortgage loan growth, excluding auto balances
 - Increased guidance range to 4.0%-5.0% growth in net interest income growth from the previous range of 3.5%-5.0%, with 2Q17 up 1.0%-1.5% versus 1Q17
 - Net interest margin in a range of 2.95%-3.00%, with 2Q17 up approximately two bps versus the 1Q17 adjusted NIM of 2.98%
 - 3.0% noninterest income growth, excluding mortgage income and non-core items, with 2Q17 up 8.0% versus 1Q17
 - Noninterest expense growth of 1%, with 2Q17 flat versus 2Q16
 - An effective tax rate in the mid-24% range, with 2Q17 approximately 25%
 - Loan loss provisioning should be reflective of loan growth
 - Net charge-offs to be range bound with quarterly variability
- Our price target is derived through our discounted dividend model and the application of a forward multiple of 12.5X to our 2Q18-1Q19 EPS estimates. The forward multiple that we apply is appropriate relative to FITB's long-term growth prospects, in our opinion.

SUITABILITY

Our suitability rating on FITB is 1 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are primarily clustered in two regions. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

	FIFTH THIRD BANCORP										FITB: NEUTRAL				
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 E	3Q17 E	4Q17 E	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E	
\$Millions, Except for Per Share Data															
Balance Sheet Data:															
Assets	142,430	143,625	143,279	142,177	140,200	141,041	141,605	142,172	141,082	142,177	142,172	147,373	0.8%	0.0%	3.7%
Gross Loans	94,408	94,786	94,211	92,849	92,244	93,051	93,865	94,687	93,485	92,849	94,687	98,151	-0.7%	2.0%	3.7%
Average Earning Assets	125,651	126,847	126,092	126,548	125,968	126,696	126,696	127,558	123,559	126,285	126,519	129,959	2.2%	0.2%	2.7%
Deposits	102,475	101,871	101,271	103,821	104,156	104,781	105,200	105,621	103,205	103,821	105,621	109,485	0.6%	1.7%	3.7%
Equity	14,992	15,395	15,445	14,874	14,935	15,025	15,079	15,135	14,508	14,874	15,135	15,371	2.5%	1.8%	1.6%
Statement of Operations:															
FTE Net Interest Income	909	908	913	909	939	941	958	970	3,554	3,639	3,808	3,961	2.4%	4.6%	4.0%
Net Interest Income	903	902	907	903	933	935	952	964	3,534	3,615	3,783	3,936	2.3%	4.7%	4.0%
Provision for Loan Losses	119	91	80	54	74	86	96	106	395	344	361	449	-12.9%	5.1%	24.4%
Non-Interest Income:															
Service Charges on Deposits	137	138	143	141	138	140	148	145	563	559	571	583	-0.7%	2.2%	2.0%
Corporate Banking Revenue	102	117	111	101	74	109	120	110	384	431	413	480	12.2%	-4.2%	16.1%
Wealth Management	102	101	101	100	108	108	111	115	418	404	442	483	-3.3%	9.4%	9.4%
Mortgage Banking Net Revenue	78	75	66	65	52	62	58	52	348	284	224	222	-18.4%	-21.1%	-0.9%
Card and Processing Revenue	79	82	79	77	74	82	86	86	302	319	328	354	5.6%	2.9%	8.0%
Other Noninterest Income	136	80	336	137	77	85	90	139	979	689	391	444	-29.6%	-43.3%	13.7%
Securities Gains	3	6	4	3	0	0	0	0	9	10	0	0	11.1%	-100.0%	NA
Total Non-Interest Income	637	599	840	620	523	586	614	647	3,003	2,696	2,370	2,567	-10.2%	-12.1%	8.3%
Non-Core Adjustment	-11	-28	-258	3	0	0	0	0	-381	-294	0	0	-22.8%	-100.0%	NA
Adjusted Non-Interest Income	626	571	582	623	523	586	614	647	2,622	2,402	2,370	2,567	-8.4%	-1.3%	8.3%
Non-Interest Expense:															
Salaries, Wages and Incentives	403	407	400	403	411	413	409	403	1,525	1,613	1,636	1,634	5.8%	1.4%	-0.1%
Employee Benefits	100	85	78	76	76	86	80	76	323	339	353	352	5.0%	4.1%	-0.3%
Net Occupancy Expense	77	75	73	73	78	75	75	75	322	298	304	303	-7.5%	1.9%	-0.1%
Technology and Communications	56	60	62	56	58	58	59	59	224	234	234	240	4.5%	-0.1%	2.7%
Card and Processing Expense	35	37	30	31	30	30	31	31	154	133	122	127	-13.6%	-8.4%	4.1%
Equipment Expense	30	30	29	29	28	29	30	30	125	118	117	122	-5.6%	-1.3%	5.0%
Other Noninterest Expense	285	289	301	292	270	290	291	293	1,103	1,167	1,144	1,186	5.8%	-1.9%	3.7%
Total Non-Interest Expense	986	983	973	960	986	982	974	967	3,776	3,902	3,909	3,965	3.3%	0.2%	1.4%
Non-Core Adjustment	-15	-9	0	0	0	0	0	0	-21	-24	0	0	NA	NA	NA
Adjusted Non-Interest Expense	971	974	973	960	986	982	974	967	3,755	3,878	3,909	3,965	3.3%	0.8%	1.4%
Operating Pre-tax Income	439	408	436	512	396	453	496	538	2,006	1,795	1,883	2,068	-10.5%	4.9%	10.9%
Income Taxes	112	75	-75	121	95	115	127	137	295	233	474	440	-21.0%	103.5%	-7.3%
Preferred Dividends	15	23	15	23	15	23	15	23	76	76	76	76	0.0%	0.0%	0.0%
Oper. Net Income for Diluted EPS	312	310	496	368	286	315	355	378	1,635	1,486	1,333	1,573	-9.1%	-10.3%	18.0%
Share & Per Share Data:															
Diluted EPS	0.40	0.40	0.65	0.49	0.38	0.41	0.47	0.51	2.03	1.94	1.77	2.16	-4.6%	-8.7%	22.1%
Operating EPS	0.40	0.39	0.43	0.49	0.38	0.41	0.47	0.51	1.72	1.72	1.77	2.16	-0.2%	3.1%	22.0%
Dividends Per Share	0.13	0.13	0.13	0.13	0.13	0.13	0.15	0.15	0.52	0.52	0.56	0.68	0.0%	7.7%	21.4%
Tangible Book Value	16.32	16.92	17.23	16.59	16.67	16.90	17.13	17.38	15.39	16.59	17.38	18.46	7.8%	4.8%	6.2%
Common Shares Outstanding	770,471	766,346	755,582	750,479	750,145	745,345	738,239	730,488	785,080	750,479	730,488	700,405	-4.4%	-2.7%	-4.1%
Average Diluted Shares	778,392	765,080	757,456	757,444	760,809	760,886	754,934	747,505	807,880	764,593	756,034	729,349	-5.4%	-1.1%	-3.5%
Key Financial Statistics:															
Return on Assets	0.92%	0.92%	1.45%	1.11%	0.87%	0.96%	1.04%	1.12%	1.21%	1.10%	1.00%	1.14%	(11)	(10)	14
Return on Common Equity	8.30%	8.13%	12.76%	9.68%	7.58%	8.42%	9.35%	9.91%	9.12%	9.72%	8.82%	10.30%	59	(90)	149
Net Interest Margin	2.91%	2.88%	2.88%	2.86%	3.02%	3.00%	3.00%	3.02%	2.88%	2.88%	3.01%	3.05%	1	13	4
Operating Non-Int. Inc./Operating Rev.	40.94%	38.76%	39.09%	40.83%	35.92%	38.52%	39.21%	40.16%	42.59%	39.90%	38.46%	(269)	(145)	100	
Efficiency Ratio	64.17%	65.86%	55.10%	62.66%	67.31%	64.25%	61.89%	59.74%	57.52%	61.95%	63.30%	60.75%	442	135	(255)
Tangible Common Ratio	8.97%	9.18%	9.24%	8.91%	9.08%	9.09%	9.09%	9.09%	8.71%	8.91%	9.09%	8.92%	20	18	(17)
Reserves/Loans	1.37%	1.37%	1.35%	1.34%	1.33%	1.32%	1.32%	1.32%	1.36%	1.35%	1.32%	1.29%	(1)	(3)	(3)
NCOs/Average Loans	0.41%	0.37%	0.45%	0.31%	0.38%	0.38%	0.40%	0.40%	0.48%	0.38%	0.39%	0.45%	(9)	1	6

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Fifth Third Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

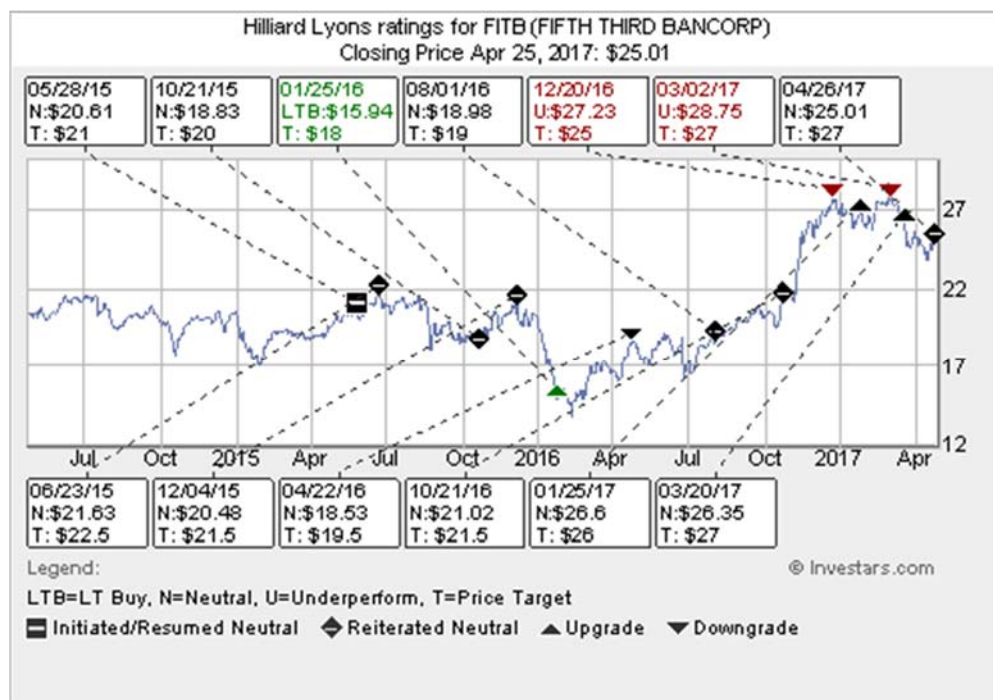
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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