



Banks

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COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHANGE

Key Metrics

FITB - NASDAQ (as of 12/12/17)	\$30.45
Price Target	\$31.00
52-Week Range	\$23.20-\$31.83
Shares Outstanding (mm)	705.6
Market Cap. (\$mm)	\$21,485
3-Mo. Average Daily Volume (000)	5,107.0
Institutional Ownership	82.1%
Tangible Equity / Tangible Assets	9.5%
ROE	9.4%
Tangible Book Value Per Share	\$17.84
Price/Tangible Book Value	170.7%
Dividend Yield	2.1%
Price/LTM Earnings	11.4x

Operating EPS CY 12/31

	2017E	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$0.38A	\$0.47	\$0.46		\$0.60
2Q	\$0.44A	\$0.50	\$0.48		\$0.62
3Q	\$0.42A	\$0.55	\$0.52		\$0.66
4Q	\$0.47	\$0.62	\$0.59		\$0.72
Year	\$1.71	\$2.14	\$2.04		\$2.60
P/E	17.8x		14.9x		11.7x

Common Dividends

	2017E	Curr. 2018E	Prior % chg.	Curr. 2019E
1Q	\$0.14A	\$0.16	14.3	\$0.20
2Q	\$0.14A	\$0.18	28.6	\$0.20
3Q	\$0.16A	\$0.20	25.0	\$0.20
4Q	\$0.16	\$0.20	25.0	\$0.20
Year	\$0.60	\$0.74	23.3	\$0.80

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

Key Takeaways from Investor Day Conference; Reaffirming Neutral Rating

- We recently attended FITB's Investor Day conference, much of which was devoted to the company's NorthStar initiative. Key takeaways from the meeting are provided herein.
- FITB's NorthStar strategy has a number of focal points, including 1) creating a differentiated brand and reputation by enhancing the customer experience, increasing brand equity and leveraging its \$30 billion commitment to invest in the communities it serves, 2) providing a superior value proposition by investing in its sales and service channels and bolstering its products, services and expertise and 3) enhancing its risk profile and operational capabilities.
- Fifth Third has formed a number of strategic alliances with fintech firms to help it achieve these goals, including GreenSky, ApplePie Capital, AvidXchange, Zelle and Transactis. Management noted that such partnerships are already contributing meaningfully to loan and revenue growth and momentum is building.
- The company is investing in infrastructure and talent on the technology front to optimize marketing, back office efficiencies, digital banking, analytic capabilities, risk management (for both customers and FITB), collaboration and innovation.
- Payments is an area of emphasis to boost fee and net interest income. Strategic priorities include the optimization of existing product lines, including consumer & commercial credit cards and treasury management, and the acceleration of momentum in newer areas such as health accounts, currency processing and digital payments.

Note Important Disclosures on pages 6 and 7
Note Analyst Certification on page 6

OTHER KEY TAKEAWAYS

- Areas of focus within consumer banking include the continued development of relationships by cementing FITB's role as a trusted financial advisor, leveraging the company's omnichannel strategy to provide an integrated banking experience, the utilization of data analytics to identify behavioral changes to grow revenue per household and increase consumer lending.
- Fifth Third is targeting the mass affluent market through its Preferred Program, which is delivered through two individuals per relationship. A Preferred Program specialist performs financial needs assessments and provides advice regarding deposit, mortgage and lending products. An investment specialist assists clients with financial, wealth and retirement planning.
- Strategies deployed to increase mortgage banking revenues include acquisitions of mortgage servicing portfolios, the implementation of a new mortgage origination system and the recruitment of mortgage producers.
- The company has reduced full-time equivalent employees by ~500 and noninterest expense by \$72 million through its ongoing branch rationalization process.
- FITB is utilizing its One Bank delivery model to augment commercial banking. Many banks employ a silo approach in selling products and services wherein various functional areas individually call on commercial customers. Under FITB's One Bank model, relationship managers serve as the sole contact and bring in specialists as needed. We believe this is a more customer friendly approach to banking.
- Fifth Third is also rolling out new industry verticals to grow commercial loans and revenues. The company plans to launch verticals in the environmental services and financial institution sectors in 2018 through which customers will be served by industry specialists.
- The company is investing in product capabilities, process improvements and enhanced talent to grow market share in the middle market space.
- Another priority for FITB is to grow wealth management by investing in expanded products and services, talent, asset manager acquisitions and technology. Likewise, the company is acquiring commercial property & casualty and employee benefits agencies and hiring producers to assist customers with their insurance needs.
- Fifth Third believes that it is in a sweet spot in that it is more nimble than stodgy big banks, while smaller banks do not possess an expanded product array to adequately serve customers.

FINANCIAL TARGETS & EXPECTATIONS

- Fifth Third has established the following NorthStar financial targets by the end of 2019:
 - Return on tangible common equity of 12%-14%
 - Return on average assets of 1.1%-1.3%
 - Efficiency ratio of less than 60%
- The company currently expects to achieve the following results in 1H18:
 - Annualized commercial loan growth of 1.75%-2.25%
 - Annualized consumer loan growth of 2.50%-3.00%
 - Net interest margin (NIM) of 3.10%-3.12%
 - Fully taxable equivalent net interest income of \$1.95B-\$2.00B
 - Noninterest income of \$1.15B-\$1.20B excluding a potential step-up gain resulting from the Vantiv (VNTV-\$74.79)/WorldPay deal
 - Noninterest expense of \$2.0B-\$2.1B

- Efficiency ratio of 65%-66%
- Effective tax rate of 26%-27% excluding impact of a potential step-up gain resulting from the Vantiv/WorldPay deal, potential additional Vantiv gains or losses, changes in regulatory or accounting guidance, future capital actions or tax reform.
- The company currently expects to achieve the following metrics in 2H18:
 - Annualized commercial loan growth of 2.00%-2.50%
 - Annualized consumer loan growth of 2.50%-3.00%
 - NIM of 3.12%-3.14%
 - Fully taxable equivalent net interest income of \$2.00B-\$2.05B
 - Noninterest income of \$1.200B-\$1.275B excluding a potential step-up gain resulting from the Vantiv/WorldPay deal
 - Noninterest expense of \$1.93B-\$2.03B
 - Efficiency ratio of 59.5%-60.5%
 - Effective tax rate of 26%-27% excluding impact of a potential step-up gain resulting from the Vantiv/WorldPay deal, potential additional Vantiv gains or losses, changes in regulatory or accounting guidance, future capital actions or tax reform.
- Fifth Third also expects its NIM to expand to 3.15%-3.17% in 2019. The NIM projections assume Fed rate hikes in 4Q17, 3Q18 and 3Q19 of 25 bps.
- FITB has targeted a Tier 1 Common Capital Ratio of 9.5% within the next couple of years versus 10.6% at the end of 3Q17. To achieve this ratio, the company is targeting a dividend payout ratio of 30%-40% and share repurchases/net income of 90%-100%, which equates to a total payout ratio of 120%-140%.
- The company has established the following capital deployment priorities:
 - Organic growth
 - Dividends
 - Share repurchases
 - Nonbank M&A
 - Bank M&A after NorthStar is achieved

ESTIMATES & VALUATION

- For modeling purposes, we are assuming a corporate tax rate of 22% in 2019 versus our previous assumption that a reduction in the corporate tax rate to 28% would be effective in 2018.
- We are reducing our 2017 and 2018 operating EPS estimates to \$1.71 and \$2.04 from \$1.74 and \$2.14, respectively. Our 2017 estimate includes the impact of a Q4 lease residual write-down of approximately \$20 million disclosed during the conference, while the reduction in our 2018 estimate primarily reflects the aforementioned higher tax rate assumption.
- We are introducing our initial 2019 estimate at \$2.60.
- We are boosting our price target by \$2.00 to \$31.00 based on the blended values derived through our discounted dividend model and the application of a 12.5X forward multiple to our 2019 EPS estimate. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- We reaffirm our Neutral rating.

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				
	1Q17 A	2Q17 A	3Q17 A	4Q17 E	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY 2016 A	FY 2017 E	FY 2018 E	FY 2019 E	YOY Change		
\$Millions, Except for Per Share Data															
Balance Sheet Data:															
Assets	140,200	141,067	142,264	142,321	143,104	143,962	144,862	145,767	142,177	142,321	145,767	150,190	0.1%	2.4%	3.0%
Gross Loans	92,244	92,212	92,594	92,978	93,489	94,050	94,638	95,229	92,849	92,978	95,229	98,118	0.1%	2.4%	3.0%
Average Earning Assets	125,968	126,134	126,443	127,138	127,371	128,103	128,888	129,693	126,285	126,428	128,517	132,062	0.1%	1.7%	2.8%
Deposits	104,156	101,880	101,452	101,493	102,051	102,663	103,305	103,950	103,821	101,493	103,950	107,104	-2.2%	2.4%	3.0%
Equity	15,099	15,088	15,029	14,972	15,152	15,073	14,966	14,848	14,874	14,972	14,848	14,828	0.7%	-0.8%	-0.1%
Statement of Operations:															
FTE Net Interest Income	939	945	977	974	977	993	1,014	1,023	3,639	3,835	4,007	4,173	5.4%	4.5%	4.2%
Net Interest Income	933	939	970	967	970	986	1,006	1,016	3,615	3,809	3,978	4,143	5.4%	4.4%	4.2%
Provision for Loan Losses	74	52	67	72	78	84	93	96	344	265	351	433	-23.1%	32.8%	23.2%
Non-Interest Income:															
Service Charges on Deposits	138	139	138	140	138	139	138	140	559	555	555	555	-0.7%	0.0%	0.0%
Corporate Banking Revenue	74	101	101	114	113	102	102	114	431	390	431	452	-9.6%	10.6%	5.0%
Wealth Management	108	103	102	104	111	109	111	114	404	417	446	482	3.1%	7.0%	8.3%
Mortgage Banking Net Revenue	52	55	63	58	64	63	64	57	284	228	239	253	-19.5%	4.5%	6.1%
Card and Processing Revenue	74	79	82	79	85	85	85	88	319	314	336	351	-1.6%	7.0%	4.5%
Other Noninterest Income	77	85	1,078	121	82	83	84	124	689	1,361	373	385	97.5%	-72.6%	3.2%
Securities Gains	0	0	0	0	0	0	0	0	10	0	0	0	-100.0%	NA	NA
Total Non-Interest Income	523	562	1,561	618	578	580	583	638	2,696	3,264	2,379	2,479	21.1%	-27.1%	4.2%
Non-Core Adjustment	0	0	-1,037	0	0	0	0	0	-294	-1,037	0	0	252.7%	-100.0%	NA
Adjusted Non-Interest Income	523	562	524	618	578	580	583	638	2,402	2,227	2,379	2,479	-7.3%	6.8%	4.2%
Non-Interest Expense:															
Salaries, Wages and Incentives	411	397	407	410	413	418	419	417	1,613	1,625	1,667	1,702	0.7%	2.6%	2.1%
Employee Benefits	111	86	77	77	112	74	75	79	339	351	360	367	3.6%	2.5%	2.1%
Net Occupancy Expense	78	70	74	74	74	75	75	75	288	296	299	303	-0.6%	0.8%	1.6%
Technology and Communications	58	57	62	74	59	60	60	60	234	251	240	247	7.1%	-4.2%	2.7%
Card and Processing Expense	30	33	32	32	33	33	33	34	133	127	133	138	-4.3%	4.1%	4.1%
Equipment Expense	28	29	30	31	31	31	31	31	118	118	124	127	-0.4%	5.4%	2.7%
Other Noninterest Expense	270	285	293	312	292	293	293	294	1,167	1,160	1,172	1,193	-0.6%	1.1%	1.8%
Total Non-Interest Expense	986	957	975	1,009	1,014	1,000	991	989	3,902	3,927	3,994	4,077	0.6%	1.7%	2.1%
Non-Core Adjustment	0	0	0	0	0	0	0	0	-24	0	0	0	NA	NA	NA
Adjusted Non-Interest Expense	986	957	975	1,009	1,014	1,000	991	989	3,878	3,927	3,994	4,077	1.3%	1.7%	2.1%
Operating Pre-tax Income	396	492	452	504	456	483	506	568	1,795	1,844	2,012	2,113	2.8%	9.1%	5.0%
Preferred Dividends	15	23	15	23	15	23	15	23	76	76	76	76	0.0%	0.0%	0.0%
Income Taxes & Other	91	127	128	148	120	128	134	151	408	494	533	556	21.2%	7.8%	-33.2%
Oper. Net Income for Diluted EPS	290	342	309	333	321	332	357	394	1,311	1,274	1,404	1,681	-2.8%	10.2%	19.7%
Share & Per Share Data:															
Operating EPS	0.38	0.44	0.42	0.47	0.46	0.48	0.52	0.59	1.72	1.71	2.04	2.60	-0.1%	19.0%	27.5%
Diluted EPS	0.38	0.45	1.35	0.47	0.46	0.48	0.52	0.59	1.94	2.65	2.04	2.60	36.7%	-22.9%	27.5%
Dividends Per Share	0.14	0.14	0.16	0.16	0.16	0.18	0.20	0.20	0.53	0.60	0.74	0.80	13.2%	23.3%	8.1%
Tangible Book Value	16.89	17.12	17.84	18.00	18.50	18.64	18.77	18.93	16.59	18.00	18.93	19.99	8.5%	5.2%	5.6%
Common Shares Outstanding	750,145	738,873	705,474	696,199	686,924	677,649	667,226	655,394	750,479	696,199	655,394	619,699	-7.2%	-5.9%	-5.4%
Average Diluted Shares	760,809	752,328	733,285	712,842	703,567	694,292	684,442	673,315	764,593	739,816	688,904	646,756	-3.2%	-6.9%	-6.1%
Key Financial Statistics:															
Return on Assets	0.87%	1.05%	2.88%	0.99%	0.95%	0.99%	1.02%	1.14%	1.10%	1.45%	1.03%	1.19%	35	(42)	16
Return on Common Equity	7.58%	8.90%	25.54%	8.81%	8.63%	8.81%	9.43%	10.50%	9.72%	12.71%	9.34%	11.41%	299	(336)	207
Net Interest Margin	3.02%	3.01%	3.07%	3.04%	3.11%	3.12%	3.13%	3.13%	2.88%	3.03%	3.12%	3.16%	15	8	4
Operating Non-Int. Inc./Operating Rev.	35.92%	37.44%	35.07%	39.01%	37.33%	37.04%	36.69%	38.58%	39.90%	36.86%	37.41%	37.42%	(304)	55	1
Efficiency Ratio	67.31%	63.50%	65.04%	63.32%	65.16%	63.46%	61.99%	59.50%	61.95%	64.79%	62.53%	61.26%	285	(227)	(127)
Tangible Common Ratio	9.20%	9.12%	9.00%	8.96%	9.04%	8.93%	8.79%	8.66%	8.91%	8.91%	8.66%	8.38%	5	(30)	(27)
Reserves/Loans	1.34%	1.33%	1.30%	1.29%	1.28%	1.27%	1.26%	1.25%	1.35%	1.29%	1.26%	1.25%	(6)	(3)	(1)
NCOs/Average Loans	0.38%	0.28%	0.29%	0.32%	0.35%	0.35%	0.40%	0.40%	0.38%	0.32%	0.38%	0.43%	(7)	6	5

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.

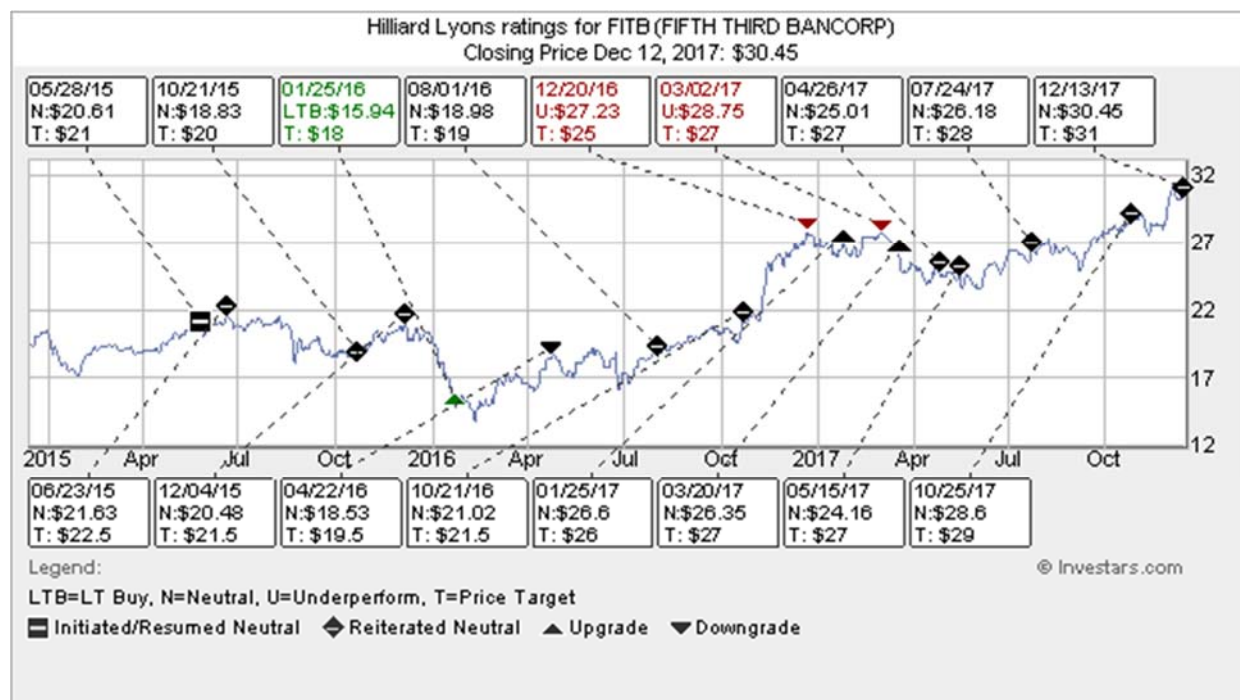
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

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	31	28%	13%	87%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 6 December 2017

Other Disclosures

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