



Banks

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COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHANGE

Key Metrics

FITB - NASDAQ (as of 07/21/17)	\$26.18
Price Target	\$28.00
52-Week Range	\$18.16-\$28.97
Shares Outstanding (mm)	738.9
Market Cap. (\$mm)	\$19,344
3-Mo. Average Daily Volume (000)	6,112.6
Institutional Ownership	82.8%
Tangible Equity / Tangible Assets	9.5%
ROE	9.4%
Tangible Book Value Per Share	\$17.12
Price/Tangible Book Value	153.0%
Dividend Yield	2.1%
Price/LTM Earnings	13.3x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.40	\$0.38A	\$0.38A	\$0.45	\$0.47
2Q	\$0.39	\$0.42	\$0.45A	\$0.49	\$0.51
3Q	\$0.43	\$0.47	\$0.47	\$0.56	\$0.55
4Q	\$0.49	\$0.50	\$0.51	\$0.60	\$0.61
Year	\$1.72	\$1.77	\$1.81	\$2.11	\$2.14
P/E	15.3x		14.4x		12.3x

Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.13	\$0.13A	0.0	\$0.18
2Q	\$0.13	\$0.13A	0.0	\$0.18
3Q	\$0.13	\$0.14	7.7	\$0.19
4Q	\$0.13	\$0.18	38.5	\$0.19
Year	\$0.52	\$0.58	11.5	\$0.74

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

2Q17 Review; Reaffirming Neutral Rating

- **Earnings Results:** FITB reported Q2 GAAP and operating EPS of \$0.45, which were \$0.03 ahead of our estimate and the Street consensus.
- **Positive Highlights:** Net interest income rose 0.6% linked-quarter (LQ) to \$939 million, as one bp of net interest margin compression to 3.01% was more than offset by a 0.1% increase in average earning assets and an extra day in the quarter. We had projected net interest income of \$935 million and a 3.00% margin. Noninterest expense fell 2.9% LQ to \$957 million. Results were below our estimate of \$983 million. The provision for loan losses decreased \$22 million to \$52 million sequentially and was below our estimate of \$86 million. The net charge-off ratio rose nine bps to 0.28% versus our estimate of 0.38%.
- **Negative Highlights:** Operating noninterest income rose 7.5% to \$562 million on a LQ basis but was below our projection of \$585 million. The major driver of the increase was a 36.5% surge in corporate banking revenue. The effective tax rate of 25.7% exceeded our estimate and management's guidance of approximately 25.0%.
- **Estimates:** We are increasing our 2017 and 2018 operating EPS estimates to \$1.81 and \$2.14 from \$1.77 and \$2.11, respectively. We are boosting our price target by \$1.00 to \$28.00, while reaffirming our Neutral rating.

Note Important Disclosures on pages 5 and 6
Note Analyst Certification on page 5

OTHER TAKEAWAYS & VALUATION

- The 36.5% LQ increase in corporate banking revenue primarily reflected the impact of a \$31 million lease remarketing impairment charge in 1Q17. Corporate banking revenues were negatively affected by a broad decline in trading activity across the sector. Management guided to stronger corporate banking revenues in 2H17.
- FITB is continuing to limit exposure to certain commercial lines and indirect auto and is actively reducing the size of these portfolios. The company has \$600 million of targeted loans to exit by year-end 2017. The exits are expected to be spread evenly across Q3 and Q4.
- The company purchased the servicing rights on approximately \$4.0 billion of mortgages this quarter, bringing the total acquired servicing portfolios in 1H17 to approximately \$10.0 billion.
- Approximately \$342 million of shares were repurchased during 2Q17.
- In conjunction with its 2017 CCAR exam, FITB announced the following actions as part of its approved capital plan for the coming four quarters: an increase in the quarterly common stock dividend to \$0.16 per share from \$0.14 beginning in 3Q17 and to \$0.18 beginning in 2Q18, as well as up to \$1.161 billion in share repurchases. These actions bring the expected total payout ratio to approximately 120% in the coming four quarters.
- Management offered the following guidance for 2017:
 - 1% commercial loan growth, including the impact of exiting \$600 million of commercial relationships that don't meet the company's desired risk/return profile. Management had previously guided to 2% commercial loan growth for the year.
 - Low- to mid-single digit consumer & mortgage loan growth, excluding indirect auto.
 - 5.0% growth in net interest income growth from the previous range of 4.0%-5.0%, with 3Q17 up 2.0% versus 2Q17.
 - Net interest margin for 2017 in-line with the 2Q17 adjusted NIM of 3.01%, with 3Q17 up approximately two bps versus 2Q17.
 - 2.0% noninterest income growth, excluding mortgage income and non-core items, with 3Q17 up 2.0% versus 2Q17.
 - Flat noninterest expense in 2017, with expected 1% YOY growth in 3Q17.
 - An effective tax rate in a range of 24.5%-25.5% in 2017, with 3Q17 approximately 25.5%
 - 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 12.5X forward multiple to our 3Q18-2Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018 and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

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 A	3Q17 E	4Q17 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	YOY Change	
\$Millions, Except for Per Share Data														
Balance Sheet Data:														
Assets	142,430	143,625	143,279	142,177	140,200	141,067	142,056	143,052	141,082	142,177	143,052	146,805	0.8%	0.6%
Gross Loans	94,408	94,786	94,211	92,849	92,244	92,212	92,973	93,740	93,485	92,849	93,740	96,199	-0.7%	1.0%
Allowance for Loan Losses	125,651	126,847	126,092	126,548	125,968	126,134	126,698	127,586	123,569	126,285	126,596	129,484	2.2%	0.2%
Deposits	102,475	101,871	101,271	103,821	104,156	101,880	102,594	103,314	103,265	103,821	103,314	106,024	0.6%	-0.5%
Equity	14,992	15,395	15,445	14,874	15,031	14,933	14,904	14,873	14,508	14,874	14,873	14,754	2.5%	0.0%
Statement of Operations:														
FTE Net Interest Income	909	908	913	909	939	945	967	974	3,554	3,639	3,824	3,943	2.4%	5.1%
Net Interest Income	903	902	907	903	933	939	961	967	3,534	3,615	3,800	3,918	2.3%	5.1%
Provision for Loan Losses	119	91	80	54	74	52	75	80	395	344	281	384	-12.9%	-18.2%
Non-Interest Income:														
Service Charges on Deposits	137	138	143	141	138	139	140	143	563	559	560	571	-0.7%	0.2%
Corporate Banking Revenue	102	117	111	101	101	101	109	112	384	431	396	437	12.2%	-8.1%
Wealth Management	102	101	101	100	108	103	105	108	418	404	424	459	-3.3%	5.1%
Mortgage Banking Net Revenue	78	75	66	65	52	55	57	50	348	284	214	226	-18.4%	-24.8%
Card and Processing Revenue	136	80	336	137	77	77	90	90	302	319	315	340	5.6%	-1.3%
Other Noninterest Income	3	6	4	3	0	2	0	0	9	10	2	0	11.1%	-80.0%
Securities Gains	637	599	840	620	523	569	581	627	3,003	2,696	2,301	2,451	-10.2%	-14.7%
Total Non-Interest Income	-11	-28	-258	3	0	-2	0	0	-381	-294	-2	0	-22.8%	-99.3%
Non-Core Adjustment	626	571	582	623	523	567	581	627	2,622	2,402	2,299	2,451	-8.4%	-4.3%
Adjusted Non-Interest Income	403	407	400	403	411	397	415	413	1,525	1,613	1,636	1,671	5.8%	1.4%
Non-Interest Expense:														
Salaries, Wages and Incentives	100	85	78	76	111	86	81	78	323	339	356	363	5.0%	4.9%
Employee Benefits	77	75	73	73	78	75	75	75	322	298	298	303	-7.5%	0.1%
Net Occupancy Expense	56	60	62	56	52	57	59	59	224	234	233	241	4.5%	3.4%
Technology and Communications	35	37	30	31	30	33	32	32	154	133	126	130	-13.6%	-5.0%
Card and Processing Expense	30	30	29	29	29	29	29	30	125	118	117	122	-5.6%	-1.3%
Equipment Expense	285	289	301	292	270	285	290	291	1,103	1,167	1,136	1,172	5.8%	-2.6%
Other Noninterest Expense	986	983	973	960	986	957	981	978	3,776	3,902	3,902	4,002	3.3%	0.0%
Total Non-Interest Expense	-15	-9	0	0	0	0	0	0	-21	-24	0	0	NA	NA
Adjusted Non-Interest Expense	971	974	973	960	986	957	981	978	3,755	3,878	3,902	4,002	3.3%	0.6%
Operating Pretax Income	439	408	436	512	396	497	486	536	2,006	1,795	1,915	1,982	-10.5%	6.7%
Income Taxes	112	75	-75	121	95	134	124	137	295	233	490	393	-21.0%	110.2%
Preferred Dividends	15	23	15	23	15	23	15	23	76	76	76	76	0.0%	0.0%
Oper. Net Income for Diluted EPS	312	310	496	368	286	340	347	376	1,635	1,486	1,350	1,513	-9.1%	-9.2%
Share & Per Share Data:														
Diluted EPS	0.40	0.40	0.65	0.49	0.38	0.45	0.47	0.51	2.03	1.94	1.81	2.14	-4.6%	-6.5%
Operating EPS	0.40	0.39	0.43	0.49	0.38	0.45	0.47	0.51	1.72	1.72	1.81	2.14	-0.2%	5.6%
Dividends Per Share	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.14	0.52	0.52	0.58	0.74	0.0%	11.5%
Tangible Book Value	16.32	16.92	17.23	16.59	16.80	16.91	17.11	17.31	15.39	16.59	17.31	18.15	7.8%	4.3%
Common Shares Outstanding	770,471	766,346	755,582	750,479	750,145	738,873	728,573	718,273	785,080	750,479	718,273	678,289	-4.4%	-4.3%
Average Diluted Shares	778,392	765,080	757,456	757,444	760,809	752,328	744,650	734,350	807,880	764,593	748,034	709,065	-5.4%	-2.2%
Key Financial Statistics:														
Return on Assets	0.92%	0.92%	1.45%	1.11%	0.87%	1.05%	1.02%	1.11%	1.21%	1.10%	1.01%	1.10%	(11)	(9)
Return on Common Equity	8.30%	8.13%	12.76%	9.68%	7.58%	8.90%	9.24%	10.03%	9.12%	9.72%	8.93%	10.23%	59	(78)
Net Interest Margin	2.91%	2.88%	2.88%	2.86%	3.02%	3.01%	3.03%	3.03%	2.88%	2.88%	3.02%	3.05%	1	14
Operating Non-Int. Inc./Operating Rev.	40.94%	38.76%	39.09%	40.83%	35.92%	37.65%	37.71%	39.34%	42.59%	39.90%	37.65%	38.47%	(269)	(225)
Efficiency Ratio	64.17%	65.86%	55.10%	62.66%	67.31%	63.50%	63.29%	61.04%	57.52%	61.95%	63.78%	62.59%	442	184
Tangible Common Ratio	8.97%	9.18%	9.24%	8.91%	9.15%	9.01%	8.94%	8.84%	8.71%	8.91%	8.84%	8.53%	20	(7)
Reserves/Loans	1.37%	1.37%	1.35%	1.35%	1.34%	1.33%	1.31%	1.29%	1.36%	1.35%	1.29%	1.25%	(1)	(5)
NCOs/Average Loans	0.41%	0.37%	0.45%	0.31%	0.38%	0.28%	0.36%	0.36%	0.48%	0.38%	0.34%	0.41%	(9)	(4)

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.

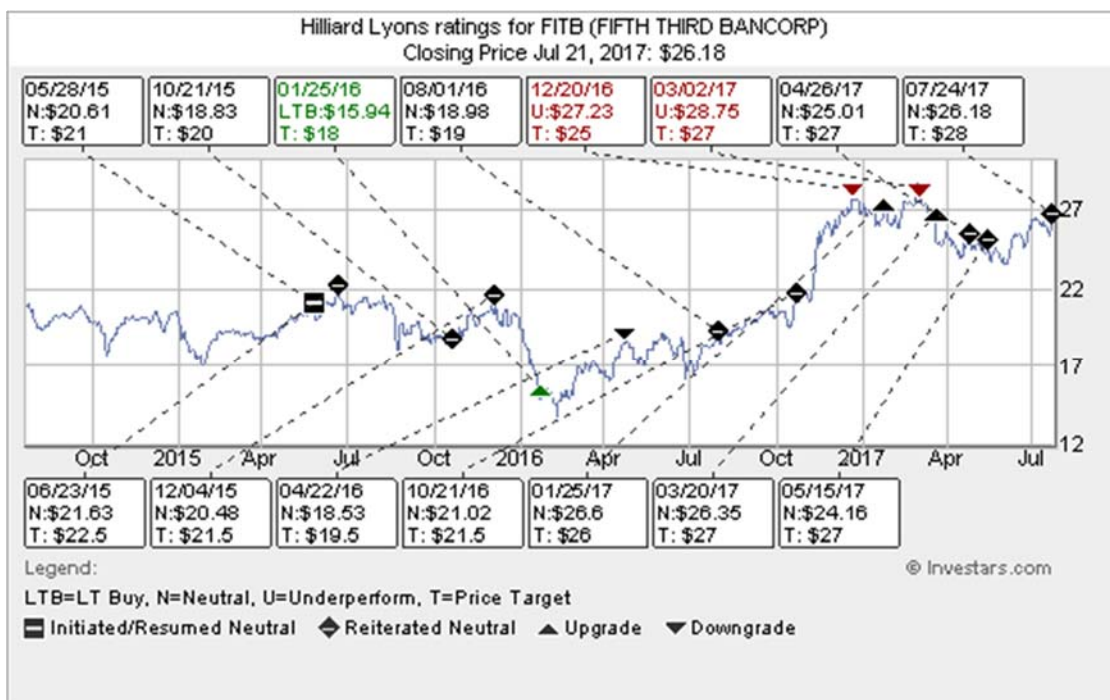
Definitions of Suitabilities:

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	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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