FIFTH THIRD BANCORP
Form 10-Q
November 06, 2018
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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 September 30, 2018

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 No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 655,615,619 shares of the Registrant s common stock, without par value, outstanding as of October 31, 2018.

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FORWARD-LOOKING STATEMENTS

This report contains statements that we believe are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, potential, 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 the Risk Factors section in Item 1A 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) deteriorating credit quality; (2) loan concentration by location or industry of borrowers or collateral; (3) problems encountered by other financial institutions; (4) inadequate sources of funding or liquidity; (5) unfavorable actions of rating agencies; (6) inability to maintain or grow deposits; (7) limitations on the ability to receive dividends from subsidiaries; (8) cyber-security risks; (9) Fifth Third s ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; (10) failures by third-party service providers; (11) inability to manage strategic initiatives and/or organizational changes; (12) inability to implement technology system enhancements; (13) failure of internal controls and other risk management systems; (14) losses related to fraud, theft or violence; (15) inability to attract and retain skilled personnel; (16) adverse impacts of government regulation; (17) governmental or regulatory changes or other actions; (18) failures to meet applicable capital requirements; (19) regulatory objections to Fifth Third s capital plan; (20) regulation of Fifth Third s derivatives activities; (21) regulatory objections to Fifth Third s resolution plan; (22) deposit insurance premiums; (23) assessments for the orderly liquidation fund; (24) changes in LIBOR; (25) weakness in the national or local economies; (26) global political and economic uncertainty or negative actions; (27) changes in interest rates; (28) changes and trends in capital markets; (29) fluctuation of Fifth Third s stock price; (30) volatility in mortgage banking revenue; (31) litigation, investigations, and enforcement proceedings by governmental authorities; (32) breaches of contractual covenants, representations and warranties; (33) competition and changes in the financial services industry; (34) changing retail distribution strategies, customer preferences and behavior; (35) risks relating to the potential merger with MB Financial, Inc. and Fifth Third s ability to realize the anticipated benefits of the merger; (36) difficulties in identifying, acquiring or integrating suitable strategic partnerships, investments or acquisitions; (37) potential dilution from future acquisitions; (38) loss of income and/or difficulties encountered in the sale and separation of businesses, investments or other assets; (39) results of Worldpay Holding, LLC (formerly Vantiv Holding, LLC) a subsidiary of Worldpay, Inc. or other investments or acquired entities; (40) difficulties from or changes in Fifth Third s investment in, relationship with, and nature of the operations of Worldpay Holding, LLC, a subsidiary of Worldpay, Inc.; (41) changes in accounting standards or interpretation or declines in the value of Fifth Third s goodwill or other intangible assets; (42) inaccuracies or other failures from the use of models; (43) effects of critical accounting policies and judgments or the use of inaccurate estimates; (44) weather related events or other natural disasters; and (45) the impact of reputational risk created by these or other 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 (Loss)

APR: Annual Percentage Rate

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

CFPB: Consumer Financial Protection Bureau

C&I: Commercial and Industrial

DCF: Discounted Cash Flow

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

MSR: Mortgage Servicing Right

N/A: Not Applicable

NII: Net Interest Income

NM: Not Meaningful

NPR: Notice of Proposed Rulemaking

NSFR: Net Stable Funding Ratio

OAS: Option-Adjusted Spread

OCI: Other Comprehensive Income (Loss)

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

DTCC: Depository Trust & Clearing Corporation

ERM: Enterprise Risk Management

ERMC: Enterprise Risk Management Committee

EVE: Economic Value of Equity

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

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

FOMC: Federal Open Market Committee

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

OREO: Other Real Estate Owned

OTTI: Other-Than-Temporary Impairment

PCA: Prompt Corrective Action

RCC: Risk Compliance Committee

RSF: Required Stable Funding

SAR: Stock Appreciation Right

SBA: Small Business Administration

SCB: Stress Capital Buffer

SEC: United States Securities and Exchange Commission

SLB: Stress Leverage Buffer

TBA: To Be Announced

TCJA: Tax Cuts and Jobs Act

TDR: Troubled Debt Restructuring

TILA: Truth in Lending Act

TRA: Tax Receivable Agreement

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. The Bancorp s banking subsidiary is referred to as the Bank.

TABLE 1: Selected Financial Data

($ in millions, except for per share data)		For the three months ended September 30, 2018	2017	% Change		For the nine months ended September 30, 2018	2017	% Change
Income Statement Data								
Net interest income (U.S. GAAP)	$	**1,043**	970	8	$	**3,059**	2,842	8
Net interest income (FTE)[(a)(b)]		**1,047**	977	7		**3,071**	2,861	7
Noninterest income		**563**	1,561	(64)		**2,215**	2,648	(16)
Total revenue[(a)]		**1,610**	2,538	(37)		**5,286**	5,509	(4)
Provision for loan and lease losses		**86**	67	28		**142**	193	(26)
Noninterest expense		**1,008**	975	3		**3,090**	2,918	6
Net income attributable to Bancorp		**433**	1,014	(57)		**1,721**	1,685	2
Net income available to common shareholders		**418**	999	(58)		**1,669**	1,633	2
Common Share Data								
Earnings per share - basic	$	**0.62**	1.37	(55)	$	**2.43**	2.19	11
Earnings per share - diluted		**0.61**	1.35	(55)		**2.38**	2.16	10
Cash dividends declared per common share		**0.18**	0.16	13		**0.52**	0.44	18
Book value per share		**21.92**	21.30	3		**21.92**	21.30	3
Market value per share		**27.92**	27.98	-		**27.92**	27.98	-
Financial Ratios								
Return on average assets		**1.21** %	2.85	(58)		**1.63** %	1.60	2
Return on average common equity		**11.2**	25.6	(56)		**15.0**	14.3	5
Return on average tangible common equity[(b)]		**13.5**	30.4	(56)		**18.1**	17.0	6
Dividend payout		**29.0**	11.7	148		**21.4**	20.1	6
Average total Bancorp shareholders equity as a percent of average assets		**11.39**	11.93	(5)		**11.43**	11.83	(3)
Tangible common equity as a percent of tangible assets[(b)(h)]		**9.12**	8.89	3		**9.12**	8.89	3
Net interest margin[(a)(b)]		**3.23**	3.07	5		**3.20**	3.03	6
Net interest rate spread [(a)(b)]		**2.87**	2.79	3		**2.87**	2.77	4
Efficiency[(a)(b)]		**62.6**	38.4	63		**58.5**	53.0	10
Credit Quality								
Net losses charged-off	$	**72**	68	6	$	**247**	221	12

Net losses charged-off as a percent of average portfolio loans and leases	**0.30 %**	0.29	3	**0.36 %**	0.32	13
ALLL as a percent of portfolio loans and leases	**1.17**	1.31	(11)	**1.17**	1.31	(11)
Allowance for credit losses as a percent of portfolio loans and leases(c)	**1.31**	1.48	(11)	**1.31**	1.48	(11)
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO	**0.48**	0.60	(20)	**0.48**	0.60	(20)
Average Balances						
Loans and leases, including held for sale	**$ 93,977**	92,617	1	**$ 93,363**	92,686	1
Securities and other short-term investments	**34,822**	33,826	3	**34,813**	33,497	4
Assets	**141,752**	140,992	1	**141,616**	140,495	1
Transaction deposits(d)	**97,315**	94,927	3	**97,303**	95,916	1
Core deposits(e)	**101,492**	98,649	3	**101,321**	99,680	2
Wholesale funding(f)	**20,613**	21,529	(4)	**20,546**	20,450	-
Bancorp shareholders equity	**16,145**	16,820	(4)	**16,187**	16,623	(3)
Regulatory Capital and Liquidity Ratios						
CET1 capital(g)	**10.67 %**	10.59	1	**10.67 %**	10.59	1
Tier I risk-based capital(g)	**11.78**	11.72	1	**11.78**	11.72	1
Total risk-based capital(g)	**14.94**	15.16	(1)	**14.94**	15.16	(1)
Tier I leverage	**10.10**	9.97	1	**10.10**	9.97	1
Modified LCR	**119**	124	(4)	**119**	124	(4)

(a) Amounts presented on an FTE basis. The FTE adjustment for the three months ended ***September 30, 2018*** *and 2017 was* ***$4*** *and $7, respectively, and for the nine months ended* ***September 30, 2018*** *and 2017 was* ***$12*** *and $19, 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.

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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 September 30, 2018, the Bancorp had $141.7 billion in assets and operated 1,152 full-service banking centers and 2,443 Fifth Third branded 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 3.3% interest in Worldpay Holding, LLC (formerly Vantiv Holding, LLC). The carrying value of the Bancorp s investment in Worldpay Holding, LLC was $424 million at September 30, 2018.

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, 2017. 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 Condensed Consolidated Financial Statements.

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

The Bancorp s revenues are dependent on both net interest income and noninterest income. For the three months ended September 30, 2018, net interest income on an FTE basis and noninterest income provided 65% and 35% of total revenue, respectively. For the nine months ended September 30, 2018, net interest income on an FTE basis and noninterest income provided 58% and 42% 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 nine months ended September 30, 2018. 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.

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

Worldpay, Inc. and Worldpay Holding, LLC Transactions

On January 16, 2018, Vantiv, Inc. completed its previously announced acquisition of Worldpay Group plc. with the resulting combined company named Worldpay, Inc. As a result of this transaction, the Bancorp recognized a gain of $414 million in other noninterest income during the first quarter of 2018 associated with the dilution in its ownership interest in Worldpay Holding, LLC from approximately 8.6% to approximately 4.9%.

On June 27, 2018, the Bancorp completed the sale of 5 million shares of Class A common stock of Worldpay, Inc. (formerly Vantiv, Inc.). The Bancorp had previously received these Class A shares in exchange for Class B Units of Worldpay Holding, LLC. The Bancorp recognized a gain of $205 million related to the sale. As a result of the sale, the Bancorp beneficially owns approximately 3.3% of Worldpay s equity through its ownership of approximately 10.3 million Class B Units. At September 30, 2018, the Bancorp s remaining interest in Worldpay Holding, LLC of $424 million continues to be accounted for as an equity method investment given the nature of Worldpay Holding, LLC s structure as a limited liability company and contractual arrangements between Worldpay Holding, LLC and the Bancorp.

GS Holdings Transaction

In May 2018, GreenSky, Inc. launched an IPO and issued 38 million shares of Class A common stock for a valuation of $23 per share. In connection with this IPO, the Bancorp s investment in GreenSky, LLC, which was comprised of 252,550 membership units, was converted to 2,525,498 units of the newly formed GreenSky Holdings, LLC (GS Holdings), representing a 1.4% interest in GS Holdings. The Bancorp s units in GS Holdings are exchangeable on a one-to-one basis for Class A common stock or cash after the initial 180-day lock-up period expires.

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

At the time of the IPO, the Bancorp recognized a $16 million gain on its investment in GreenSky, LLC, which was included in other noninterest income in the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018. At September 30, 2018, the investment in GS Holdings was $45 million, which was included in equity securities in the Condensed Consolidated Balance Sheets.

Accelerated Share Repurchase Transactions

During the nine months ended September 30, 2018, 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 15 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 nine months ended September 30, 2018, 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 19, 2017	$ 273	7,727,273	824,367	8,551,640	March 19, 2018
February 12, 2018	318	8,691,318	1,015,731	9,707,049	March 26, 2018
May 25, 2018	235	6,402,244	1,172,122	7,574,366	June 15, 2018

Open Market Share Repurchase Transactions

Between July 20, 2018 and August 2, 2018, the Bancorp repurchased 16,945,020 shares, or approximately $500 million, of its outstanding common stock through open market repurchase transactions, which settled between July 24, 2018 and August 6, 2018. For more information on the open market share repurchase program, refer to Note 15 of the Notes to Condensed Consolidated Financial Statements.

Senior Notes Offering

On March 14, 2018, the Bancorp issued and sold $650 million of 3.95% senior fixed-rate notes, with a maturity of ten years, due on March 14, 2028. These notes will be redeemable by the Bancorp, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

On June 5, 2018, the Bancorp issued and sold $250 million of senior floating-rate notes, with a maturity of three years, due on June 4, 2021. Interest on the floating-rate notes is 3-month LIBOR plus 47 bps. These notes will be redeemable, 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 of the notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

On July 26, 2018 the Bank issued and sold $1.55 billion in aggregate principal amount of unsecured senior bank notes. The bank notes consisted of $500 million of 3.35% senior fixed-rate notes, with a maturity of three years, due on July 26, 2021; $300 million of senior floating-rate notes at three-month LIBOR plus 44 bps, with a maturity of three years, due on July 26, 2021; and $750 million of 3.95% senior fixed-rate notes, with a maturity of seven years, due July 28, 2025. The Bank entered into interest rate swaps to convert the fixed-rate notes due in 2021 and 2025 to a floating-rate, which resulted in an effective interest rate of one-month LIBOR plus 53 bps and 104 bps, respectively. 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.

2018 Branch Optimization Plan

Customer interactions and service and sales activity in Branch Banking continue to evolve with changing demographics and technology applications. Customers are increasingly utilizing digital tools to interact with their financial institutions in conducting their transactions while still utilizing physical branches for consultations and new product and service initiation. During the past three years, these developments and other business strategies led to a net decrease of 143 in the number of retail branches, or 11% of the Bancorp s total branch count, through consolidations and sales.

The Bancorp continues to evaluate its retail network distribution in light of changes in customer behavior while developing new analytical tools that provide enhanced capabilities to optimize the profitability and growth potential of branches. In slower growth mature markets these developments enable the Bancorp to achieve efficiencies through well-executed branch consolidations without materially impacting deposit flows and/or revenue growth while maintaining the service quality standards. While continuing to evaluate such actions, the Bancorp is also focused on achieving higher retail household and deposit growth in other parts of its footprint mainly in markets that exhibit faster economic growth and where the Bancorp has significant opportunities to capture higher market share. To that extent, based on the strategic business evaluation that was performed during the second quarter of 2018, over the next 2-3 years, as part of the 2018 Branch Optimization Plan, the Bancorp plans to close between 100-125 branches in more mature markets and open between 100-125 new branches in higher growth markets where the Bancorp already has an existing retail branch presence. With the existing local presence and familiarity with the customer demographics, and with newly developed analytical tools, the Bancorp expects to achieve higher growth rates as a result of these actions.

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

As of September 30, 2018, the Bancorp had identified 31 specific branches for closure under the 2018 Branch Optimization Plan with these closures expected to be completed prior to December 31, 2018. The Bancorp expects to identify the remaining branches to be closed under the 2018 Branch Optimization Plan prior to December 31, 2019. As part of the adoption of the 2018 Branch Optimization Plan, the Bancorp has also elected to sell 21 parcels of land which had previously been held for future branch expansion. For further information about the 2018 Branch Optimization plan, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

Legislative and Regulatory Developments

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the Reform Act) was signed into law. Among other regulatory changes, the Reform Act amends various sections of the DFA, most impactful are changes to section 165 of DFA raising the asset thresholds for determining the application of Enhanced Prudential Standards for BHCs deemed systemically important. The Reform Act raised the asset thresholds in two separate timeframes, immediately removing BHCs with consolidated assets below $100 billion from the application of the Enhanced Prudential Standards. BHCs with consolidated assets greater than $100 billion but less than $250 billion, including Fifth Third Bancorp, would continue to be subject to the Enhanced Prudential Standards for 18 months after the date of enactment, unless the Board of Governors of the FRB acts prior to that time period to provide regulatory relief from the Enhanced Prudential Standards or elects to continue to subject these BHCs to some form of Enhanced Prudential Standards. However, the FRB is also authorized to exempt any BHC with assets between $100 billion and $250 billion from any Enhanced Prudential Standards prior to the end of the 18-month period or after.

Regardless of this regulatory outcome, the Reform Act requires the FRB to continue to subject BHCs with consolidated assets between $100 billion to $250 billion to a periodic supervisory stress test and to continue to apply risk committee requirements outlined in the DFA. The Reform Act also provides the FRB the authority to continue to subject BHCs with consolidated assets greater than $100 billion to Enhanced Prudential Standards if the FRB determines that application is warranted and appropriate to address risks to financial stability and promote safety and soundness taking into consideration certain factors including the BHC s capital structure, riskiness, complexity, financial activities (including financial activities of subsidiaries), size, and any other risk-related factors that the FRB deems appropriate.

On October 31, 2018, the federal banking agencies issued two NPRs related to the implementation of the Reform Act. The proposed rules would establish four risk-based categories of institutions and apply tailored capital and liquidity requirements for each respective category. These proposals are subject to modification through the federal rulemaking process in accordance with the Administrative Procedures Act, but based upon Fifth Third s interpretation of the NPRs, the Bancorp would qualify as a Category IV BHC subject to the least restrictive of the proposed requirements.

The ultimate benefits or consequences of the Reform Act on Fifth Third Bancorp, Fifth Third Bank and their respective subsidiaries and activities will be subject to the final form of these NPRs, and additional rulemakings issued by the FRB and additional federal regulators. Fifth Third cannot predict future changes in the applicable laws, regulations and regulatory agency policies, yet such changes may have a material effect on its business, financial condition or results of operations.

Earnings Summary

The Bancorp s net income available to common shareholders for the third quarter of 2018 was $418 million, or $0.61 per diluted share, which was net of $15 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the third quarter of 2017 was $999 million, or $1.35 per diluted share, which was net of $15 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the nine months ended September 30, 2018 was $1.7 billion, or $2.38 per diluted share, which was net of $52 million in preferred stock dividends. For the nine months ended September 30, 2017, the Bancorp s net income available to common shareholders was $1.6 billion, or $2.16 per diluted share, which was net of $52 million in preferred stock dividends.

Net interest income on an FTE basis (non-GAAP) was $1.0 billion and $3.1 billion for the three and nine months ended September 30, 2018, respectively, an increase of $70 million and $210 million compared to the same periods in the prior year. Net interest income was positively impacted by increases in both the yields and amounts of average loans and leases and average taxable securities for the three and nine months ended September 30, 2018 compared to the same periods in the prior year. Additionally, net interest income was positively impacted by the decisions of the FOMC to raise the target range of the federal funds rate 25 bps in December 2017, March 2018, June 2018 and September 2018. These positive impacts were partially offset by increases in the rates paid on average interest-bearing core deposits and average long-term debt for both the three and nine months ended September 30, 2018 compared to the same periods in the prior year. Net interest margin on an FTE basis (non-GAAP) was 3.23% and 3.20% for the three and nine months ended September 30, 2018, respectively, compared to 3.07% and 3.03% for the three and nine months ended September 30, 2017, respectively.

Noninterest income decreased $998 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to decreases in other noninterest income and mortgage banking net revenue. Other noninterest income decreased $990 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to the gain on sale of Worldpay, Inc. shares recognized during the third quarter of 2017 and a reduction in equity method income from the Bancorp s interest in Worldpay Holding, LLC. These reductions were partially offset by a decrease in the loss on the swap associated with the sale of Visa, Inc. Class B Shares and an increase in private equity investment income. Mortgage banking net revenue decreased $14 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to a decrease in origination fees and gains on loan sales driven by a decrease in originations and lower margins due to the interest rate environment.

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

Noninterest income decreased $433 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to decreases in other noninterest income and mortgage banking net revenue. Other noninterest income decreased $443 million during the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to the gain on sale of Worldpay, Inc. shares recognized during the third quarter of 2017, a reduction in equity method income from the Bancorp s interest in Worldpay Holding, LLC and an increase in the net losses on disposition and impairment of bank premises and equipment. These reductions were partially offset by the gain related to Vantiv, Inc. s acquisition of Worldpay Group plc., the gain on the sale of Worldpay, Inc. shares recognized during the second quarter of 2018 and increases in private equity investment income and in insurance income. Mortgage banking net revenue decreased $12 million during the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to a decrease in origination fees and gains on loan sales driven by a decrease in originations and lower margins due to the interest rate environment, partially offset by an increase in net mortgage servicing revenue driven by a decrease in net negative valuation adjustments and an increase in gross mortgage servicing fees.

Noninterest expense increased $33 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to increases in personnel costs, technology and communications expense and other noninterest expense. Personnel costs increased $19 million for the three months ended September 30, 2018 compared to the same period in the prior year driven by an increase in base compensation, variable compensation, long-term incentive compensation and severance costs. Technology and communications expense increased $9 million for the three months ended September 30, 2018 compared to the same period in the prior year driven primarily by increased investment in regulatory, compliance and growth initiatives. Other noninterest expense increased $9 million for the three months ended September 30, 2018 compared to the same period in the prior year driven primarily by increased marketing expenses as a result of an increase in advertising volume related to the brand campaign and promotional offers.

Noninterest expense increased $172 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to increases in personnel costs, technology and communications expense and other noninterest expense. Personnel costs increased $120 million for the nine months ended September 30, 2018 compared to the same period in the prior year driven by an increase in base compensation, variable compensation, long-term incentive compensation and severance costs. Technology and communications expense increased $29 million for the nine months ended September 30, 2018 compared to the same period in the prior year driven primarily by increased investment in regulatory, compliance and growth initiatives. Other noninterest expense increased $25 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to increases in marketing expense, the impairment on affordable housing investments, loan and lease expense and donations expense, partially offset by an increase in the benefit for the reserve for unfunded commitments and a decrease in professional service fees.

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 $86 million and $142 million for the three and nine months ended September 30, 2018, respectively, compared to $67 million and $193 million for the comparable periods in 2017. Net losses charged-off as a percent of average portfolio loans and leases increased to 0.30% during the three months ended September 30, 2018 compared to 0.29% during the same period in the prior year and increased to 0.36% for the nine months ended September 30, 2018 compared to 0.32% for the same period in the prior year. At September 30, 2018, nonperforming portfolio assets as a percent of portfolio loans and leases and OREO decreased to 0.48% compared to 0.53% at December 31, 2017. 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 September 30, 2018, as calculated under the Basel III standardized approach, the CET1 capital ratio was 10.67%, the Tier I risk-based capital ratio was 11.78%, the Total risk-based capital ratio was 14.94% and the Tier I leverage ratio was 10.10%.

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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 provide useful insight to the reader of the Condensed Consolidated Financial Statements but should be supplemental to primary U.S. GAAP measures and should not be read in isolation or relied upon as a substitute for the primary U.S. GAAP measures.

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

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

TABLE 3: Non-GAAP Financial Measures - Financial Measures and Ratios on an FTE basis

		For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)		**2018**	2017	**2018**	2017
Net interest income (U.S. GAAP)	$	**1,043**	970	**3,059**	2,842
Add: FTE adjustment		**4**	7	**12**	19
Net interest income on an FTE basis (1)	$	**1,047**	977	**3,071**	2,861
Net interest income on an FTE basis (annualized) (2)		**4,154**	3,876	**4,106**	3,815
Interest income (U.S. GAAP)	$	**1,315**	1,152	**3,790**	3,344
Add: FTE adjustment		**4**	7	**12**	19
Interest income on an FTE basis	$	**1,319**	1,159	**3,802**	3,363
Interest income on an FTE basis (annualized) (3)		**5,233**	4,598	**5,083**	4,496
Interest expense (annualized) (4)	$	**1,079**	722	**977**	671
Noninterest income (5)		**563**	1,561	**2,215**	2,648
Noninterest expense (6)		**1,008**	975	**3,090**	2,918
Average interest-earning assets (7)		**128,799**	126,443	**128,176**	126,183
Average interest-bearing liabilities (8)		**89,772**	85,328	**88,875**	85,181
Ratios:					
Net interest margin on an FTE basis (2) / (7)		**3.23 %**	3.07	**3.20**	3.03
Net interest rate spread on an FTE basis ((3) / (7)) - ((4) / (8))		**2.87**	2.79	**2.87**	2.77
Efficiency ratio on an FTE basis (6) / ((1) + (5))		**62.6**	38.4	**58.5**	53.0

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

		For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)		**2018**	2017	**2018**	2017
Net income available to common shareholders (U.S. GAAP)	$	**418**	999	**1,669**	1,633
Add: Intangible amortization, net of tax		**1**	-	**3**	1
Tangible net income available to common shareholders	$	**419**	999	**1,672**	1,634
Tangible net income available to common shareholders (annualized) (1)		**1,662**	3,963	**2,235**	2,179
Average Bancorp shareholders equity (U.S. GAAP)	$	**16,145**	16,820	**16,187**	16,623
Less: Average preferred stock		**(1,331)**	(1,331)	**(1,331)**	(1,331)
Average goodwill		**(2,462)**	(2,423)	**(2,460)**	(2,421)
Average intangible assets		**(29)**	(18)	**(28)**	(15)
Average tangible common equity (2)	$	**12,323**	13,048	**12,368**	12,856
Return on average tangible common equity (1) / (2)		**13.5 %**	30.4	**18.1**	17.0

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. 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 5: Non-GAAP Financial Measures - Capital Ratios

As of ($ in millions)		**September 30, 2018**	December 31, 2017
Total Bancorp Shareholders Equity (U.S. GAAP)	**$**	**15,830**	16,365
Less: Preferred stock		**(1,331)**	(1,331)
Goodwill		**(2,462)**	(2,445)
Intangible assets		**(28)**	(27)
AOCI		**775**	(73)
Tangible common equity, excluding unrealized gains / losses (1)		**12,784**	12,489
Add: Preferred stock		**1,331**	1,331
Tangible equity (2)	**$**	**14,115**	13,820
Total Assets (U.S. GAAP)	**$**	**141,685**	142,193
Less: Goodwill		**(2,462)**	(2,445)
Intangible assets		**(28)**	(27)
AOCI, before tax		**981**	(92)
Tangible assets, excluding unrealized gains / losses (3)	**$**	**140,176**	139,629
Ratios:			
Tangible equity as a percentage of tangible assets (2) / (3)		**10.07 %**	9.90
Tangible common equity as a percentage of tangible assets (1) / (3)		**9.12**	8.94

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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 Bancorp s 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, 2017. There have been no material changes to the valuation techniques or models during the nine months ended September 30, 2018.

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

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 6 and 7 present the components of net interest income, net interest margin and net interest rate spread for the three and nine months ended September 30, 2018 and 2017, 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 and leases 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 debt and other securities included in other assets.

Net interest income on an FTE basis (non-GAAP) was $1.0 billion and $3.1 billion for the three and nine months ended September 30, 2018, respectively, an increase of $70 million and $210 million compared to the same periods in the prior year. Net interest income was positively impacted by increases in yields on average loans and leases of 53 bps and 51 bps, respectively, and yields on average taxable securities of 14 bps and 12 bps, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in the prior year. Net interest income was also positively impacted by increases in average loans and leases of $1.4 billion and $677 million, respectively, and average taxable securities of $1.0 billion and $1.2 billion, respectively, for the three and nine months ended September 30, 2018, compared to the same periods in the prior year. Additionally, net interest income was positively impacted by the decisions of the FOMC to raise the target range of the federal funds rate 25 bps in December 2017, March 2018, June 2018 and September 2018. These positive impacts were partially offset by increases in the rates paid on average interest-bearing core deposits and average long-term debt for both the three and nine months ended September 30, 2018 compared to the same periods in the prior year. The rates paid on average interest-bearing core deposits increased 35 bps and 29 bps, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in the prior year. The rates paid on average long-term debt increased 27 bps for both the three and nine months ended September 30, 2018 compared to the same periods in the prior year.

Net interest rate spread on an FTE basis (non-GAAP) was 2.87% during both the three and nine months ended September 30, 2018 compared to 2.79% and 2.77%, respectively, in the same periods in the prior year. Yields on average interest-earning assets increased 43 bps and 41 bps for the three and nine months ended September 30, 2018, respectively, partially offset by a 35 bps and 31 bps increase in rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year.

Net interest margin on an FTE basis (non-GAAP) was 3.23% and 3.20% for the three and nine months ended September 30, 2018, respectively, compared to 3.07% and 3.03% for the three and nine months ended September 30, 2017, respectively. The increase for both periods was driven primarily by the previously mentioned increases in the net interest rate spread partially offset by decreases in average free funding balances. The decreases in average free funding balances for both periods were driven by decreases in average demand deposits of $2.5 billion and $2.0 billion for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year.

Interest income on an FTE basis from loans and leases (non-GAAP) increased $139 million and $373 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increases were primarily due to the aforementioned increases in yields on average loans and leases, as well as increases in the volume of average other consumer 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 $21 million and $66 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily as a result of the aforementioned increases in average taxable securities and yields on average taxable securities.

Interest expense on core deposits increased $67 million and $158 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increases were primarily due to increases in the cost of average interest-bearing core deposits to 74 bps and 64 bps for the three and nine months ended September 30, 2018, respectively, from 39 bps and 35 bps for the three and nine months ended September 30, 2017, respectively. The increases in the cost of average interest-bearing core deposits for both periods were primarily due to increases in the rates paid on average interest checking deposits and average money market deposits. Refer to the Deposits subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp s deposits.

Interest expense on average wholesale funding increased $23 million and $71 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to the aforementioned increases in the rates paid on average long-term debt coupled with 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 both the three and nine months ended September 30, 2018, average wholesale funding represented 23% of average interest-bearing liabilities compared to 25% and 24% during the three and nine months ended September 30, 2017, respectively. For more information on the Bancorp s interest rate risk management, including estimated earnings sensitivity to changes in market interest rates, see the Market Risk Management subsection of the Risk Management section of MD&A.

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

TABLE 6: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE Basis

For the three months ended	**September 30, 2018**			September 30, 2017			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	**$ 42,614**	**463**	**4.32%**	$ 41,314	391	3.75%	$ 12	60	72
Commercial mortgage loans	**6,664**	**77**	**4.57**	6,814	66	3.85	(1)	12	11
Commercial construction loans	**4,870**	**63**	**5.14**	4,533	48	4.23	4	11	15
Commercial leases	**3,746**	**27**	**2.85**	4,079	28	2.70	(2)	1	(1)
Total commercial loans and leases	**57,894**	**630**	**4.32**	56,740	533	3.72	13	84	97
Residential mortgage loans	**16,226**	**146**	**3.58**	16,206	142	3.48	-	4	4
Home equity	**6,529**	**83**	**5.03**	7,207	80	4.39	(8)	11	3
Automobile loans	**8,969**	**78**	**3.47**	9,267	69	2.96	(3)	12	9
Credit card	**2,299**	**71**	**12.17**	2,140	63	11.63	5	3	8
Other consumer loans	**2,060**	**36**	**6.98**	1,057	18	6.89	18	-	18
Total consumer loans	**36,083**	**414**	**4.56**	35,877	372	4.12	12	30	42
Total loans and leases	**$ 93,977**	**1,044**	**4.41%**	$ 92,617	905	3.88%	$ 25	114	139
Securities:									
Taxable	**33,301**	**268**	**3.20**	32,289	249	3.06	8	11	19
Exempt from income taxes(b)	**69**	**1**	**4.35**	65	1	5.33	-	-	-
Other short-term investments	**1,452**	**6**	**1.74**	1,472	4	1.16	-	2	2

Total interest-earning assets	**$ 128,799**	**1,319**	**4.07%**	$ 126,443	1,159	3.64%	$ 33	127	160
Cash and due from banks	**2,193**			2,227					
Other assets	**11,837**			13,532					
Allowance for loan and lease losses	**(1,077)**			(1,210)					
Total assets	**$ 141,752**			$ 140,992					
Liabilities and Equity:									
Interest-bearing liabilities:									
Interest checking deposits	**$ 29,681**	**66**	**0.88%**	$ 25,765	29	0.44%	$ 5	32	37
Savings deposits	**13,231**	**4**	**0.11**	13,889	2	0.06	-	2	2
Money market deposits	**21,753**	**44**	**0.80**	20,028	19	0.39	2	23	25
Foreign office deposits	**317**	**-**	**0.33**	395	-	0.21	-	-	-
Other time deposits	**4,177**	**15**	**1.48**	3,722	12	1.23	-	3	3
Total interest-bearing core deposits	**69,159**	**129**	**0.74**	63,799	62	0.39	7	60	67
Certificates $100,000 and over	**2,596**	**12**	**1.85**	2,625	9	1.38	-	3	3
Other deposits	**578**	**3**	**1.95**	560	2	1.16	-	1	1
Federal funds purchased	**1,987**	**10**	**1.96**	675	2	1.16	6	2	8
Other short-term borrowings	**1,018**	**6**	**2.22**	4,212	12	1.09	(13)	7	(6)
Long-term debt	**14,434**	**112**	**3.09**	13,457	95	2.82	7	10	17
Total interest-bearing liabilities	**$ 89,772**	**272**	**1.20%**	$ 85,328	182	0.85%	$ 7	83	90
Demand deposits	**32,333**			34,850					
Other liabilities	**3,482**			3,973					
Total liabilities	**$ 125,587**			$ 124,151					
Total equity	**$ 16,165**			$ 16,841					
Total liabilities and equity	**$ 141,752**			$ 140,992					
Net interest income (FTE)[c]		**$ 1,047**			$ 977		$ 26	44	70
Net interest margin (FTE)[c]			**3.23%**			3.07%			
			2.87			2.79			

Net interest rate spread (FTE)[c]		
Interest-bearing liabilities to interest-earning assets	**69.70**	67.48

(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 **$4** and $7 for the three months ended **September 30, 2018** and 2017, respectively.*

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

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

TABLE 7: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE Basis

For the nine months ended	September 30, 2018			September 30, 2017			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	$ **42,249**	**1,321**	**4.18%**	$ 41,619	1,123	3.61%	$ 17	181	198
Commercial mortgage loans	**6,591**	**217**	**4.40**	6,873	189	3.68	(8)	36	28
Commercial construction loans	**4,762**	**175**	**4.90**	4,277	128	4.01	17	30	47
Commercial leases	**3,850**	**81**	**2.82**	4,008	81	2.71	(3)	3	-
Total commercial loans and leases	**57,452**	**1,794**	**4.17**	56,777	1,521	3.58	23	250	273
Residential mortgage loans	**16,176**	**433**	**3.58**	16,011	423	3.53	4	6	10
Home equity	**6,695**	**242**	**4.83**	7,389	232	4.19	(23)	33	10
Automobile loans	**9,000**	**221**	**3.29**	9,486	204	2.88	(11)	28	17
Credit card	**2,248**	**205**	**12.16**	2,121	188	11.84	12	5	17
Other consumer loans	**1,792**	**91**	**6.79**	902	45	6.70	45	1	46
Total consumer loans	**35,911**	**1,192**	**4.44**	35,909	1,092	4.06	27	73	100
Total loans and leases	$ **93,363**	**2,986**	**4.28%**	$ 92,686	2,613	3.77%	$ 50	323	373
Securities:									
Taxable	**33,272**	**797**	**3.20**	32,067	738	3.08	28	31	59
Exempt from income taxes(b)	**75**	**2**	**3.28**	63	2	5.38	1	(1)	-
Other short-term investments	**1,466**	**17**	**1.58**	1,367	10	0.97	-	7	7

Total interest-earning assets	$	**128,176**	**3,802**	**3.97%**	$	126,183	3,363	3.56%	$	79	360	439
Cash and due from banks		**2,182**				2,202						
Other assets		**12,394**				13,343						
Allowance for loan and lease losses		**(1,136)**				(1,233)						
Total assets	$	**141,616**			$	140,495						
Liabilities and Equity:												
Interest-bearing liabilities:												
Interest checking deposits	$	**28,938**	**165**	**0.76%**	$	26,176	73	0.38%	$	9	83	92
Savings deposits		**13,463**	**9**	**0.09**		14,081	6	0.06		(1)	4	3
Money market deposits		**21,517**	**110**	**0.68**		20,301	53	0.35		3	54	57
Foreign office deposits		**393**	**1**	**0.28**		409	1	0.17		-	-	-
Other time deposits		**4,018**	**41**	**1.36**		3,764	35	1.23		2	4	6
Total interest-bearing core deposits		**68,329**	**326**	**0.64**		64,731	168	0.35		13	145	158
Certificates $100,000 and over		**2,346**	**28**	**1.58**		2,609	27	1.36		(3)	4	1
Other deposits		**385**	**5**	**1.76**		330	2	1.03		1	2	3
Federal funds purchased		**1,258**	**17**	**1.80**		542	4	0.94		8	5	13
Other short-term borrowings		**1,959**	**25**	**1.70**		3,441	24	0.92		(13)	14	1
Long-term debt		**14,598**	**330**	**3.02**		13,528	277	2.75		24	29	53
Total interest-bearing liabilities	$	**88,875**	**731**	**1.10%**	$	85,181	502	0.79%	$	30	199	229
Demand deposits		**32,992**				34,949						
Other liabilities		**3,541**				3,717						
Total liabilities	$	**125,408**			$	123,847						
Total equity	$	**16,208**			$	16,648						
Total liabilities and equity	$	**141,616**			$	140,495						
Net interest income (FTE)[(c)]			**$ 3,071**				$ 2,861		$	49	161	210
Net interest margin (FTE)[(c)]				**3.20%**				3.03%				
Net interest rate spread (FTE)[(c)]				**2.87**				2.77				

Interest-bearing liabilities to interest-earning assets	**69.34**	67.51

(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 **$12** and $19 for the nine months ended **September 30, 2018** and 2017, respectively.*

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

Provision for Loan and Lease Losses

The Bancorp provides as an expense an amount for probable loan and lease losses within the loan and lease portfolio that is based on factors previously discussed in the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2017. The provision is recorded to bring the ALLL to a level deemed appropriate by the Bancorp to cover losses inherent in the portfolio. Actual credit losses on loans and leases are charged against the ALLL. The amount of loans and leases actually removed from the Condensed Consolidated Balance Sheets is referred to as a charge-off. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

The provision for loan and lease losses was $86 million and $142 million for the three and nine months ended September 30, 2018, respectively, compared to $67 million and $193 million during the same periods in the prior year. The increase in provision expense for the three months ended September 30, 2018 was primarily due to an increase in outstanding commercial loan balances and an increase in consumer reserve rates for certain products. The decrease in provision expense for the nine months ended September 30, 2018 was primarily due to a decrease in the level of commercial criticized assets combined with overall improved credit quality.

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The ALLL decreased $105 million from December 31, 2017 to $1.1 billion at September 30, 2018. At September 30, 2018, the ALLL as a percent of portfolio loans and leases decreased to 1.17% compared to 1.30% at December 31, 2017.

Refer to the Credit Risk Management subsection of the Risk Management section of MD&A as well as Note 6 of the Notes to Condensed Consolidated Financial Statements for more detailed information on the provision for loan and lease losses, including an analysis of loan and lease portfolio composition, nonperforming assets, net charge-offs and other factors considered by the Bancorp in assessing the credit quality of the loan and lease portfolio and the ALLL.

Noninterest Income

Noninterest income decreased $998 million and $433 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year.

The following table presents the components of noninterest income:

TABLE 8: Components of Noninterest Income

	For the three months ended September 30,			For the nine months ended September 30,		
($ in millions)	**2018**	2017	% Change	**2018**	2017	% Change
Service charges on deposits	$ **139**	138	1	$ **414**	415	-
Wealth and asset management revenue	**114**	102	12	**335**	313	7
Corporate banking revenue	**100**	101	(1)	**308**	276	12
Card and processing revenue	**82**	79	4	**245**	232	6
Mortgage banking net revenue	**49**	63	(22)	**158**	170	(7)
Other noninterest income	**86**	1,076	(92)	**794**	1,237	(36)
Securities (losses) gains, net	**(6)**	-	NM	**(21)**	1	NM
Securities (losses) gains, net - non-qualifying hedges on MSRs	**(1)**	2	NM	**(18)**	4	NM
Total noninterest income	$ **563**	1,561	(64)	$ **2,215**	2,648	(16)

Wealth and asset management revenue

Wealth and asset management revenue increased $12 million and $22 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for both the three and nine months ended September 30, 2018 compared to the same periods in the prior year was primarily due to increases of $6 million and $13 million, respectively, in private client service fees and increases of $4 million and $7 million, respectively, in brokerage fees. These increases were driven by an increase in assets under management as a result of strong market performance and increased asset production. The Bancorp s trust and registered investment advisory businesses had approximately $376 billion and $348 billion in total assets under care at September 30, 2018 and 2017, respectively, and managed $38 billion and $36 billion in assets for individuals, corporations and not-for-profit organizations at September 30, 2018 and 2017, respectively.

Corporate banking revenue

Corporate banking revenue decreased $1 million for the three months ended September 30, 2018 and increased $32 million for the nine months ended September 30, 2018 compared to the same periods in the prior year. The decrease for the three months ended September 30, 2018 compared to the same period in the prior year was primarily driven by decreases in institutional sales and letter of credit fees of $4 million and $1 million, respectively. These decreases were partially offset by an increase in foreign exchange fees of $4 million. The increase for the nine months ended September 30, 2018 compared to the same period in the prior year was primarily driven by increases in lease remarketing fees, foreign exchange fees and contract revenue from commercial customer derivatives of $26 million, $9 million and $8 million, respectively. The increase in lease remarketing fees for the nine months ended September 30, 2018 included the impact of a $31 million impairment charge related to certain operating lease assets that was recognized during the first quarter of 2017. These benefits were partially offset by decreases of $6 million in both business lending fees and letter of credit fees.

Card and processing revenue

Card and processing revenue increased $3 million and $13 million for the three and nine months ended September 30, 2018 compared to the same periods in the prior year. The increases for both the three and nine months ended September 30, 2018 compared to the same periods in the prior year were primarily driven by increases in the number of actively used cards and customer spend volume.

Mortgage banking net revenue

Mortgage banking net revenue decreased $14 million and $12 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year.

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

The following table presents the components of mortgage banking net revenue:

TABLE 9: Components of Mortgage Banking Net Revenue

($ in millions)		For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Origination fees and gains on loan sales	$	**25**	40	**77**	106
Net mortgage servicing revenue:					
Gross mortgage servicing fees		**56**	56	**162**	152
Net valuation adjustments on MSRs and free-standing derivatives purchased to economically hedge MSRs		**(32)**	(33)	**(81)**	(88)
Net mortgage servicing revenue		**24**	23	**81**	64
Total mortgage banking net revenue	$	**49**	63	**158**	170

Origination fees and gains on loan sales decreased $15 million and $29 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven by a decrease in originations and lower margins due to the interest rate environment. Residential mortgage loan originations decreased to $1.9 billion and $5.5 billion during the three and nine months ended September 30, 2018, respectively, compared to $2.1 billion and $6.3 billion during the same periods in the prior year.

Net mortgage servicing revenue increased $1 million and $17 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increases for the three and nine months ended September 30, 2018 compared to the same periods in the prior year included decreases in net negative valuation adjustments of $1 million and $7 million, respectively. The increase for the nine months ended September 30, 2018 also included an increase in gross mortgage servicing fees of $10 million. Refer to Table 10 for the components of net valuation adjustments on the MSR portfolio and the impact of the non-qualifying hedging strategy:

TABLE 10: Components of Net Valuation Adjustments on MSRs

($ in millions)		For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio	$	**(24)**	1	**(89)**	16
Changes in fair value:					
Due to changes in inputs or assumptions		**25**	(2)	**103**	(15)
Other changes in fair value		**(33)**	(32)	**(95)**	(89)
Net valuation adjustments on MSR and free-standing derivatives purchased to economically hedge MSRs	$	**(32)**	(33)	**(81)**	(88)

Mortgage rates increased during both the three and nine months ended September 30, 2018 which caused modeled prepayment speeds to slow. The fair value of the MSR increased $25 million and $103 million, respectively, due to changes to inputs to the valuation model including prepayment speeds and OAS spread assumptions and decreased $33 million and $95 million, respectively, due to the passage of time, including the impact of regularly scheduled repayments, paydowns and payoffs for the three and nine months ended September 30, 2018.

Mortgage rates decreased during both the three and nine months ended September 30, 2017 which caused modeled prepayments speeds to increase, which led to fair value adjustments on servicing rights. The fair value of the MSR decreased $2 million and $15 million, respectively, due to changes to inputs to the valuation model including prepayment speeds and OAS spread assumptions and decreased $32 million and $89 million, respectively, due to the passage of time, including the impact of regularly scheduled repayments, paydowns and payoffs for the three and nine months ended September 30, 2017.

Further detail on the valuation of MSRs can be found in Note 11 of the Notes to Condensed Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in the valuation of the MSR portfolio. Refer to Note 12 of the Notes to Condensed Consolidated Financial Statements for more information on the free-standing derivatives used to economically hedge the MSR portfolio.

In addition to the derivative positions used to economically hedge the MSR portfolio, the Bancorp acquires various securities as a component of its non-qualifying hedging strategy. The Bancorp recognized net losses of $1 million and $18 million during the three and nine months ended September 30, 2018, respectively, and net gains of $2 million and $4 million during the three and nine months ended September 30, 2017, respectively, recorded in securities (losses) gains, net - non-qualifying hedges on MSRs in the Bancorp s Condensed Consolidated Statements of Income.

The Bancorp s total residential mortgage loans serviced at September 30, 2018 and 2017 were $80.1 billion and $77.1 billion, respectively, with $64.0 billion and $60.8 billion, respectively, of residential mortgage loans serviced for others.

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

Other noninterest income

The following table presents the components of other noninterest income:

TABLE 11: Components of Other Noninterest Income

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2018**	2017	**2018**	2017
Gain related to Vantiv, Inc. s acquisition of Worldpay Group plc.	$ **-**	-	**414**	-
Gain on sale of Worldpay, Inc. shares	**-**	1,037	**205**	1,037
Operating lease income	**20**	23	**65**	73
Private equity investment income	**26**	2	**61**	29
BOLI income	**15**	13	**41**	38
Cardholder fees	**14**	14	**41**	41
Consumer loan and lease fees	**6**	6	**17**	17
Insurance income	**5**	2	**16**	5
Banking center income	**5**	5	**16**	15
Net gains (losses) on loan sales	**3**	-	**2**	(2)
Equity method income from interest in Worldpay Holding, LLC	**2**	13	**1**	37
Loss on swap associated with the sale of Visa, Inc. Class B Shares	**(17)**	(47)	**(66)**	(69)
Net (losses) gains on disposition and impairment of bank premises and equipment	**4**	(1)	**(37)**	(3)
Other, net	**3**	9	**18**	19
Total other noninterest income	$ **86**	1,076	**794**	1,237

Other noninterest income decreased $990 million during the three months ended September 30, 2018 compared to the same period in the prior year primarily due to the gain on sale of Worldpay, Inc. shares recognized during the third quarter of 2017 and a reduction in equity method income from the Bancorp s interest in Worldpay Holding, LLC. These reductions were partially offset by a decrease in the loss on the swap associated with the sale of Visa, Inc. Class B Shares and an increase in private equity investment income.

The Bancorp recognized a $1.0 billion gain on the sale of Worldpay, Inc. shares during the three months ended September 30, 2017. Equity method income from the Bancorp s interest in Worldpay Holding, LLC decreased $11 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to a decrease in the Bancorp s ownership percentage in Worldpay Holding, LLC from approximately 8.6% as of September 30, 2017 to approximately 3.3% as of September 30, 2018 and the impact of a reduction in Worldpay Holding, LLC net income for the three months ended September 30, 2018 compared to the same period in the prior year. During the three months ended September 30, 2018, the Bancorp recognized negative valuation adjustments of $17 million related to the Visa total return swap compared to negative valuation adjustments of $47 million during the three months ended September 30, 2017. The decrease from the prior period was attributable to litigation developments during the third quarter of 2017. For additional information on the valuation of the swap associated with the sale of Visa, Inc. Class B Shares, refer to Note 16, Note 17 and Note 22 of the Notes to Condensed Consolidated Financial Statements. Private equity investment income increased $24 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to valuation adjustments on certain private equity investments.

Other noninterest income decreased $443 million during the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to the gain on sale of Worldpay, Inc. shares recognized during the third quarter of 2017, a reduction in equity method income from the Bancorp s interest in Worldpay Holding, LLC and an increase in the net losses on disposition and impairment of bank premises and equipment. These reductions were partially offset by the gain related to Vantiv, Inc. s acquisition of Worldpay Group plc., the gain on sale of Worldpay, Inc. shares recognized during the second quarter of 2018 and increases in private equity investment income and in insurance income.

The Bancorp recognized a $205 million gain on the sale of Worldpay, Inc. shares during the nine months ended September 30, 2018 compared to a $1.0 billion gain on the sale of Worldpay, Inc. shares during the nine months ended September 30, 2017. The Bancorp also recognized a $414 million gain related to Vantiv, Inc. s acquisition of Worldpay Group plc. during the nine months ended September 30, 2018. For more information, refer to Note 18 of the Notes to Condensed Consolidated Financial Statements. Equity method income from the Bancorp s interest in Worldpay Holding, LLC decreased $36 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to the decrease in the Bancorp s ownership percentage in Worldpay Holding, LLC and the impact of Worldpay, Inc. s acquisition and integration costs on its earnings. Net losses on disposition and impairment of bank premises and equipment for the nine months ended September 30, 2018 included the impact of branch impairment charges of $33 million. For more information, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements. Private equity investment income increased $32 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to valuation adjustments on certain private equity investments. Insurance income increased $11 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 as a result of acquisitions in 2017.

Noninterest Expense

Noninterest expense increased $33 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits), technology and communications expense and other noninterest expense. Noninterest expense increased $172 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to increases in personnel costs, technology and communications expense and other noninterest expense.

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The following table presents the components of noninterest expense:

TABLE 12: Components of Noninterest Expense

($ in millions)	For the three months ended September 30, 2018	2017	% Change	For the nine months ended September 30, 2018	2017	% Change
Salaries, wages and incentives	$ **421**	407	3	$ **1,339**	1,215	10
Employee benefits	**82**	77	6	**270**	274	(1)
Net occupancy expense	**70**	74	(5)	**219**	221	(1)
Technology and communications	**71**	62	15	**206**	177	16
Equipment expense	**31**	30	3	**92**	88	5
Card and processing expense	**31**	32	(3)	**91**	95	(4)
Other noninterest expense	**302**	293	3	**873**	848	3
Total noninterest expense	$ **1,008**	975	3	$ **3,090**	2,918	6
Efficiency ratio on an FTE basis[(a)]	**62.6%**	38.4		**58.5%**	53.0	

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

Personnel costs increased $19 million and $120 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven by an increase in base compensation, variable compensation, long-term incentive compensation and severance costs. The increase in base compensation was primarily due to personnel additions in information technology as well as an increase in the Bancorp s minimum wage as a result of benefits received from the TCJA. Full-time equivalent employees totaled 17,512 at September 30, 2018 compared to 17,797 at September 30, 2017.

Technology and communications expense increased $9 million and $29 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven primarily by increased investment in regulatory, compliance and growth initiatives.

The following table presents the components of other noninterest expense:

TABLE 13: Components of Other Noninterest Expense

($ in millions)	For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Impairment on affordable housing investments	$ **39**	41	**134**	119
Marketing	**43**	37	**105**	86
FDIC insurance and other taxes	**33**	33	**99**	98
Loan and lease	**29**	26	**84**	72

Operating lease		**19**	20	**59**	67
Losses and adjustments		**18**	20	**51**	46
Professional service fees		**15**	17	**45**	61
Data processing		**14**	14	**42**	43
Travel		**13**	12	**39**	35
Postal and courier		**8**	10	**26**	33
Recruitment and education		**8**	9	**24**	26
Donations		**3**	4	**19**	10
Supplies		**3**	3	**10**	10
Insurance		**4**	3	**10**	9
Benefit from the reserve for unfunded commitments		**(2)**	(5)	**(32)**	(4)
Other, net		**55**	49	**158**	137
Total other noninterest expense	**$**	**302**	293	**873**	848

Other noninterest expense increased $9 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to an increase in marketing expense. Marketing expense increased $6 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to an increase in advertising volume related to the brand campaign and promotional offers during the three months ended September 30, 2018. Other noninterest expense for the three months ended September 30, 2018 included a $2 million decrease in impairment on affordable housing investments as compared to the prior year period primarily due to a decrease in the number of investments, partially offset by the impact of the change in the federal statutory corporate tax rate pursuant to the TCJA.

Other noninterest expense increased $25 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to increases in marketing expense, the impairment on affordable housing investments, loan and lease expense and donations expense, partially offset by an increase in the benefit for the reserve for unfunded commitments and a decrease in professional service fees. Marketing expense increased $19 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to promotional offers during the nine months ended September 30, 2018. Impairment on affordable housing investments increased $15 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily driven by the change in the federal statutory corporate tax rate pursuant to the TCJA. Loan and lease expense increased $12 million for the nine months ended September 30, 2018 compared to the same period in the prior year driven by an increase in loan servicing expenses on point-of-sale loans as a result of growth in point-of-sale originations.

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Donations expense increased $9 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to a contribution to the Fifth Third Foundation. The benefit from the reserve for unfunded commitments was $32 million for the nine months ended September 30, 2018 compared to a benefit from the reserve for unfunded commitments of $4 million for the same period in the prior year as a result of overall improved credit quality. Professional service fees decreased $16 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to decreases in legal fees and consulting fees.

Applicable Income Taxes

The following table presents the Bancorp s income before income taxes, applicable income tax expense and effective tax rate:

TABLE 14: Applicable Income Taxes

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2018**	2017	**2018**	2017
Income before income taxes	$ **512**	1,489	**2,042**	2,379
Applicable income tax expense	**79**	475	**321**	694
Effective tax rate	**15.6%**	31.9	**15.7**	29.2

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

The decreases in the effective tax rates for the three and nine months ended September 30, 2018 compared to the same periods in the prior year were primarily related to the reduction in the federal statutory corporate tax rate partially offset by changes to previously deductible items associated with the enactment of the TCJA.

For stock-based awards, U.S. GAAP requires that the tax consequences for the difference between the expense recognized for financial reporting and the Bancorp s actual tax deduction for the stock-based awards be recognized through income tax expense in the interim periods in which they occur. The Bancorp cannot predict its stock price or whether and when its employees will exercise stock-based awards in the future. Based on its stock price at September 30, 2018, the Bancorp estimates that it may be necessary to recognize $12 million of additional income tax benefit over the next twelve months related to the settlement of stock-based awards primarily in the first half of 2019. However, the amount of income tax expense or benefit recognized upon settlement may vary significantly from expectations based on the Bancorp s stock price and the number of SARs exercised by employees.

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BALANCE SHEET ANALYSIS

Loans and Leases

The Bancorp classifies its commercial loans and leases based upon primary purpose and consumer loans based upon product or collateral. Table 15 summarizes end of period loans and leases, including loans and leases held for sale and Table 16 summarizes average total loans and leases, including loans and leases held for sale.

TABLE 15: Components of Total Loans and Leases (including loans and leases held for sale)

	September 30, 2018		December 31, 2017	
As of ($ in millions)	Carrying Value	% of Total	Carrying Value	% of Total
Commercial loans and leases:				
Commercial and industrial loans	**$ 42,725**	**46**	$ 41,170	45
Commercial mortgage loans	**6,701**	**7**	6,610	7
Commercial construction loans	**4,892**	**5**	4,553	5
Commercial leases	**3,697**	**4**	4,068	4
Total commercial loans and leases	**58,015**	**62**	56,401	61
Consumer loans:				
Residential mortgage loans	**16,148**	**17**	16,077	17
Home equity	**6,485**	**7**	7,014	8
Automobile loans	**9,002**	**10**	9,112	10
Credit card	**2,325**	**2**	2,299	2
Other consumer loans	**2,131**	**2**	1,559	2
Total consumer loans	**36,091**	**38**	36,061	39
Total loans and leases	**$ 94,106**	**100**	$ 92,462	100
Total portfolio loans and leases (excluding loans and leases held for sale)	**$ 93,443**		$ 91,970	

Loans and leases, including loans and leases held for sale, increased $1.6 billion from December 31, 2017. The increase from December 31, 2017 was the result of a $1.6 billion increase in commercial loans and leases as well as a $30 million increase in consumer loans.

Commercial loans and leases increased from December 31, 2017 due to increases in commercial and industrial loans, commercial construction loans and commercial mortgage loans, partially offset by a decrease in commercial leases. Commercial and industrial loans increased $1.6 billion, or 4%, from December 31, 2017 primarily as a result of an increase in new loan originations as well as a decrease in payoffs during the nine months ended September 30, 2018. Commercial construction loans increased $339 million, or 7%, from December 31, 2017 primarily due to increases in draw levels on existing commitments as a result of seasonal trends. Commercial mortgage loans increased $91 million, or 1%, from December 31, 2017 primarily due to an increase in new loan originations and continued success in permanent financing from the Bancorp s commercial construction loan portfolio. Commercial leases decreased $371 million, or 9%, from December 31, 2017 primarily as a result of a planned reduction in indirect non-relationship based lease originations.

Consumer loans increased from December 31, 2017 due to increases in other consumer loans, credit card and residential mortgage loans, partially offset by decreases in home equity and automobile loans. Other consumer loans increased $572 million, or 37%, from December 31, 2017 primarily due to growth in point-of-sale loan originations. Residential mortgage loans increased $71 million from December 31, 2017 primarily due to the continued retention of certain agency conforming ARMs and certain other fixed-rate loans originated during the nine months ended September 30, 2018. Credit card increased $26 million, or 1%, from December 31, 2017 primarily due to an increase in balance active customers. Home equity decreased $529 million, or 8%, from December 31, 2017 as payoffs exceeded new loan production. Automobile loans decreased $110 million, or 1%, from December 31, 2017 as payoffs exceeded new loan production due to a strategic shift focusing on improving risk-adjusted returns.

TABLE 16: Components of Average Loans and Leases (including loans and leases held for sale)

	September 30, 2018			September 30, 2017		
For the three months ended ($ in millions)	Carrying Value		% of Total	Carrying Value		% of Total
Commercial loans and leases:						
Commercial and industrial loans	**$**	**42,614**	**46**	$	41,314	45
Commercial mortgage loans		**6,664**	**7**		6,814	7
Commercial construction loans		**4,870**	**5**		4,533	5
Commercial leases		**3,746**	**4**		4,079	4
Total commercial loans and leases		**57,894**	**62**		56,740	61
Consumer loans:						
Residential mortgage loans		**16,226**	**17**		16,206	18
Home equity		**6,529**	**7**		7,207	8
Automobile loans		**8,969**	**10**		9,267	10
Credit card		**2,299**	**2**		2,140	2
Other consumer loans		**2,060**	**2**		1,057	1
Total consumer loans		**36,083**	**38**		35,877	39
Total average loans and leases	**$**	**93,977**	**100**	$	92,617	100
Total average portfolio loans and leases (excluding loans and leases held for sale)	**$**	**93,192**		$	91,906	

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

Average loans and leases, including loans and leases held for sale, increased $1.4 billion from September 30, 2017. The increase from September 30, 2017 was the result of a $1.2 billion, or 2%, increase in average commercial loans and leases as well as a $206 million, or 1%, increase in average consumer loans.

Average commercial loans and leases increased from September 30, 2017 due to increases in average commercial and industrial and average commercial construction loans, partially offset by decreases in average commercial mortgage loans and average commercial leases. Average commercial and industrial loans increased $1.3 billion, or 3%, from September 30, 2017 primarily as a result of an increase in new loan originations as well as a decrease in payoffs. Average commercial construction loans increased $337 million, or 7%, from September 30, 2017 primarily due to increases in draw levels on existing commitments. Average commercial leases decreased $333 million, or 8%, from September 30, 2017 primarily as a result of a planned reduction in indirect non-relationship based lease originations. Average commercial mortgage loans decreased $150 million, or 2%, from September 30, 2017 primarily due to an increase in paydowns and lower new loan origination activity in the fourth quarter of 2017 and the first quarter of 2018 driven by increased competition.

Average consumer loans increased from September 30, 2017 due to increases in average other consumer loans, credit card and residential mortgage loans, partially offset by decreases in average home equity and automobile loans. Average other consumer loans increased $1.0 billion, or 95%, from September 30, 2017 primarily due to growth in point-of-sale loan originations. Average credit card increased $159 million, or 7%, from September 30, 2017 primarily due to both an increase in balance active customers and an increase in card usage resulting in an increase in the average balance per active customer. Average residential mortgage loans increased $20 million from September 30, 2017 primarily driven by the continued retention of certain agency conforming ARMs and certain other fixed-rate loans. Average home equity decreased $678 million, or 9%, from September 30, 2017 as payoffs exceeded new loan production. Average automobile loans decreased $298 million, or 3%, from September 30, 2017 as payoffs exceeded new loan production due to a strategic shift focusing on improving risk-adjusted returns.

Investment Securities

The Bancorp uses investment securities as a means of managing interest rate risk, providing both collateral for pledging purposes and liquidity for satisfying regulatory requirements. Total investment securities were $32.6 billion and $32.7 billion at September 30, 2018 and December 31, 2017, respectively. The taxable investment securities portfolio had an effective duration of 5.2 years at September 30, 2018 compared to 4.7 years at December 31, 2017.

Debt securities are classified as available-for-sale when, in management s judgment, they may be sold in response to, or in anticipation of, changes in market conditions. Securities that management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Debt securities are classified as trading when bought and held principally for the purpose of selling them in the near term. At September 30, 2018, the Bancorp s investment portfolio consisted primarily of AAA-rated available-for-sale and other debt securities. The Bancorp held an immaterial amount in below investment grade available-for-sale and other debt securities at both September 30, 2018 and December 31, 2017. For both the three and nine months ended September 30, 2018 the Bancorp did not recognize OTTI on any of its available-for-sale debt and other securities. For the three and nine months ended September 30, 2017 the Bancorp recognized $4 million and $28 million, respectively, of OTTI on its available-for-sale debt and other securities, included in securities (losses) gains, net, in the Condensed Consolidated Statements of Income.

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

TABLE 17: Components of Investment Securities

As of ($ in millions)		September 30, 2018	December 31, 2017
Available-for-sale debt and other securities (amortized cost basis):			
U.S. Treasury and federal agencies securities	$	**98**	98
Obligations of states and political subdivisions securities		**2**	43
Mortgage-backed securities:			
Agency residential mortgage-backed securities[(a)]		**16,447**	15,281
Agency commercial mortgage-backed securities		**10,405**	10,113
Non-agency commercial mortgage-backed securities		**3,169**	3,247
Asset-backed securities and other debt securities		**2,035**	2,183
Other securities[(b)]		**551**	612
Total available-for-sale debt and other securities	$	**32,707**	31,577
Held-to-maturity securities (amortized cost basis):			
Obligations of states and political subdivisions securities	$	**16**	22
Asset-backed securities and other debt securities		**2**	2
Total held-to-maturity securities	$	**18**	24
Trading debt securities (fair value):			
U.S. Treasury and federal agencies securities	$	**20**	12
Obligations of states and political subdivisions securities		**69**	22
Agency residential mortgage-backed securities		**63**	395
Asset-backed securities and other debt securities		**117**	63
Total trading debt securities	$	**269**	492
Total equity securities	$	**500**	439

(a) Includes interest-only mortgage-backed securities of $34 as of December 31, 2017 recorded at fair value with fair value changes recorded in securities (losses) gains, net in the Condensed Consolidated Statements of Income.

*(b) Other securities consist of FHLB, FRB and DTCC restricted stock holdings of **$184**, **$365** and **$2**, respectively, at **September 30, 2018** and $248, $362, and $2, respectively, at December 31, 2017, that are carried at cost.*

On an amortized cost basis, available-for-sale debt and other securities increased $1.1 billion from December 31, 2017 primarily due to increases in agency residential mortgage-backed securities and agency commercial mortgage-backed securities, partially offset by a decrease in asset-backed securities and other debt securities.

On an amortized cost basis, available-for-sale debt and other securities were 25% of total interest-earning assets at both September 30, 2018 and December 31, 2017. The estimated weighted-average life of the debt securities in the available-for-sale debt and other securities portfolio was 6.8 years at September 30, 2018 compared to 6.5 years at December 31, 2017. In addition, at September 30, 2018, the debt securities in the available-for-sale debt and other securities portfolio had a weighted-average yield of 3.21%, compared to 3.18% at December 31, 2017.

Trading debt securities decreased $223 million from December 31, 2017 primarily due to a decrease in agency residential mortgage-backed securities.

Information presented in Table 18 is on a weighted-average life basis, anticipating future prepayments. Yield information is presented on an FTE basis and is computed using amortized cost balances. Maturity and yield calculations for the total available-for-sale debt and other securities portfolio exclude other securities that have no stated yield or maturity. Total net unrealized losses on the available-for-sale debt and other securities portfolio were $899 million at September 30, 2018 compared to net unrealized gains of $174 million at December 31, 2017. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase or when credit spreads expand.

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TABLE 18: Characteristics of Available-for-Sale Debt and Other Securities

As of September 30, 2018 ($ in millions)		Amortized Cost	Fair Value	Weighted-Average Life (in years)	Weighted-Average Yield
U.S. Treasury and federal agencies securities:					
Average life of 1 year or less	$	-	-	0.2	3.04 %
Average life 1 5 years		98	95	4.3	2.12
Total	$	98	95	4.3	2.12 %
Obligations of states and political subdivisions securities:[(a)]					
Average life of 1 year or less		-	-	0.3	5.90
Average life 1 5 years		-	-	2.4	5.90
Average life 5 10 years		2	2	6.0	-
Total	$	2	2	5.6	0.54 %
Agency residential mortgage-backed securities:					
Average life of 1 year or less		-	-	0.4	10.07
Average life 1 5 years		5,932	5,821	4.4	3.41
Average life 5 10 years		9,367	9,066	7.4	3.17
Average life greater than 10 years		1,148	1,086	11.0	3.09
Total	$	16,447	15,973	6.6	3.25 %
Agency commercial mortgage-backed securities:					
Average life 1 5 years		2,219	2,142	3.5	2.92
Average life 5 10 years		6,024	5,855	7.5	3.10
Average life greater than 10 years		2,162	2,049	11.7	3.09
Total	$	10,405	10,046	7.5	3.06 %
Non-agency commercial mortgage-backed securities:					
Average life of 1 year or less		-	-	0.3	4.53
Average life 1 5 years		699	692	4.6	3.23
Average life 5 10 years		2,470	2,405	6.6	3.23
Total	$	3,169	3,097	6.2	3.23 %
Asset-backed securities and other debt securities:					
Average life of 1 year or less		36	35	0.4	2.59
Average life 1 5 years		1,104	1,105	3.7	3.87
Average life 5 10 years		698	705	6.7	3.62
Average life greater than 10 years		197	199	10.4	3.66
Total	$	2,035	2,044	5.3	3.74 %
Other securities		551	551		

Total available-for-sale debt and other securities	$	32,707	31,808	6.8	3.21 %

(a) Taxable-equivalent yield adjustments included in the above table are 0.00%, 0.48%, 0.00% and 0.03% for securities with an average life of 1 year or less, 1-5 years, 5-10 years and in total, respectively.

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Deposits

The Bancorp s deposit balances represent an important source of funding and revenue growth opportunity. The Bancorp continues to focus on core deposit growth in its retail and commercial franchises by improving customer satisfaction, building full relationships and offering competitive rates. Average core deposits represented 72% and 71% of the Bancorp s average asset funding base at September 30, 2018 and December 31, 2017, respectively.

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

TABLE 19: Components of Deposits

	September 30, 2018		December 31, 2017	
As of ($ in millions)	Balance	% of Total	Balance	% of Total
Demand	**$ 31,803**	**31**	$ 35,276	34
Interest checking	**30,288**	**29**	27,703	27
Savings	**13,027**	**12**	13,425	13
Money market	**21,977**	**21**	20,097	19
Foreign office	**298**	**-**	484	1
Total transaction deposits	**97,393**	**93**	96,985	94
Other time	**4,249**	**4**	3,775	4
Total core deposits	**101,642**	**97**	100,760	98
Certificates $100,000 and over(a)	**2,700**	**3**	2,402	2
Total deposits	**$ 104,342**	**100**	$ 103,162	100

*(a) Includes **$1.5 billion** and $1.3 billion of institutional, retail and wholesale certificates $250,000 and over at **September 30, 2018** and December 31, 2017, respectively.*

Core deposits increased $882 million, or 1%, from December 31, 2017 driven by an increase of $474 million in other time deposits and an increase of $408 million in transaction deposits. Other time deposits increased from December 31, 2017 primarily due to promotional rate offers facilitated by the rising-rate environment. Transaction deposits increased from December 31, 2017 primarily due to increases in interest checking deposits and money market deposits, partially offset by a decrease in demand deposits. Interest checking deposits increased $2.6 billion, or 9%, from December 31, 2017 driven primarily by balance migration from demand deposit accounts and higher balances per commercial customer account. Money market deposits increased $1.9 billion, or 9%, from December 31, 2017 primarily as a result of promotional rate offers facilitated by the rising-rate environment, growth in the Fifth Third Preferred Banking program and direct mail marketing which drove consumer customer acquisition. Demand deposits decreased $3.5 billion, or 10%, from December 31, 2017 primarily as a result of the aforementioned commercial customer balance migration into interest checking deposits and lower balances per commercial customer account due to commercial customer seasonality.

Certificates $100,000 and over increased $298 million from December 31, 2017 primarily due to an increase in retail brokered certificates of deposit since December 31, 2017.

The following table presents the components of average deposits for the three months ended:

TABLE 20: Components of Average Deposits

	September 30, 2018		September 30, 2017	
($ in millions)	Balance	% of Total	Balance	% of Total
Demand	**$ 32,333**	**31**	$ 34,850	33
Interest checking	**29,681**	**28**	25,765	25
Savings	**13,231**	**13**	13,889	14
Money market	**21,753**	**21**	20,028	20
Foreign office	**317**	**-**	395	-
Total transaction deposits	**97,315**	**93**	94,927	92
Other time	**4,177**	**4**	3,722	4
Total core deposits	**101,492**	**97**	98,649	96
Certificates $100,000 and over(a)	**2,596**	**2**	2,625	3
Other deposits	**578**	**1**	560	1
Total average deposits	**$ 104,666**	**100**	$ 101,834	100

*(a) Includes **$1.4 billion** and $1.5 billion of average institutional, retail and wholesale certificates $250,000 and over for the three months ended **September 30, 2018** and 2017, respectively.*

On an average basis, core deposits increased $2.8 billion, or 3%, from September 30, 2017 primarily due to an increase of $2.4 billion in average transaction deposits and an increase of $455 million in average other time deposits. Average other time deposits increased from September 30, 2017 primarily as a result of promotional offers facilitated by the rising-rate environment. The increase in average transaction deposits was driven by increases in average interest checking deposits and average money market deposits, partially offset by a decrease in average demand deposits. Average interest checking deposits increased $3.9 billion, or 15%, from September 30, 2017, primarily due to balance migration from demand deposit accounts and an increase in average balances per commercial customer account. Average money market deposits increased $1.7 billion, or 9%, from September 30, 2017 primarily as a result of promotional rate offers facilitated by the rising-rate environment, growth in the Fifth Third Preferred Banking program and direct mail marketing which drove consumer customer acquisition. Average demand deposits decreased $2.5 billion, or 7%, from September 30, 2017 primarily due to commercial customer balance migration into interest checking deposits and a decrease in average balances per commercial customer account.

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Contractual maturities

The contractual maturities of certificates $100,000 and over as of September 30, 2018 are summarized in the following table:

TABLE 21: Contractual Maturities of Certificates $100,000 and Over

($ in millions)		
Next 3 months	$	708
3-6 months		547
6-12 months		588
After 12 months		857
Total certificates $100,000 and over	$	2,700

The contractual maturities of other time deposits and certificates $100,000 and over as of September 30, 2018 are summarized in the following table:

TABLE 22: Contractual Maturities of Other Time Deposits and Certificates $100,000 and Over

($ in millions)		
Next 12 months	$	3,728
13-24 months		2,304
25-36 months		759
37-48 months		126
49-60 months		24
After 60 months		8
Total other time deposits and certificates $100,000 and over	$	6,949

Borrowings

The Bancorp accesses a variety of short-term and long-term funding sources. Borrowings with original maturities of one year or less are classified as short-term and include federal funds purchased and other short-term borrowings. As of September 30, 2018, average total borrowings as a percent of average interest-bearing liabilities were 19% compared to 21% at December 31, 2017.

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

TABLE 23: Components of Borrowings

As of ($ in millions)		**September 30, 2018**	December 31, 2017
Federal funds purchased	**$**	**2,316**	174

Other short-term borrowings		**1,114**	4,012
Long-term debt		**14,460**	14,904
Total borrowings	$	**17,890**	19,090

Total borrowings decreased $1.2 billion, or 6%, from December 31, 2017 due to decreases in other short-term borrowings and long-term debt partially offset by an increase in federal funds purchased. Other short-term borrowings decreased $2.9 billion from December 31, 2017 driven by a decrease in FHLB advances. The level of other short-term borrowings can fluctuate significantly from period to period depending on funding needs and which sources are used to satisfy those needs. For further information on the components of other short-term borrowings, refer to Note 13 of the Notes to Condensed Consolidated Financial Statements. Long-term debt decreased $444 million from December 31, 2017 primarily driven by the maturity of $1.9 billion of unsecured senior bank notes and $500 million of unsecured subordinated debt, $379 million of paydowns on long-term debt associated with automobile loan securitizations and $117 million of fair value adjustments associated with interest rate swaps hedging long-term debt during the nine months ended September 30, 2018. These decreases were partially offset by the issuance of $1.9 billion of unsecured fixed-rate senior notes and $550 million of unsecured floating-rate senior notes since December 31, 2017. For additional information regarding long-term debt issuances, refer to Note 14 of the Notes to Condensed Consolidated Financial Statements. Federal funds purchased increased $2.1 billion from December 31, 2017 due to a reallocation of other short-term borrowings.

The following table summarizes components of average borrowings for the three months ended:

TABLE 24: Components of Average Borrowings

($ in millions)		**September 30, 2018**	September 30, 2017
Federal funds purchased	$	**1,987**	675
Other short-term borrowings		**1,018**	4,212
Long-term debt		**14,434**	13,457
Total average borrowings	$	**17,439**	18,344

Total average borrowings decreased $905 million, or 5%, compared to September 30, 2017, due to decreases in average other short-term borrowings partially offset by increases in average federal funds purchased and average long-term debt. Average other short-term borrowings decreased $3.2 billion compared to September 30, 2017, primarily driven by the decrease in FHLB advances. Average long-term debt increased $977 million compared to September 30, 2017. The increase was primarily driven by the issuance of $2.7 billion of unsecured fixed-rate senior bank notes and $850 million of unsecured floating-rate senior bank notes since September 30, 2017 partially offset by the maturity of $1.9 billion in unsecured senior bank notes since September 30, 2017 and $500 million of unsecured subordinated debt during the second quarter of 2018. Average federal funds purchased increased $1.3 billion due to a reallocation of other short-term borrowings. Information on the average rates paid on borrowings is discussed in the Net Interest Income subsection of the Statements of Income Analysis section of MD&A. In addition, refer to the Liquidity Risk Management subsection of the Risk Management section of MD&A for a discussion on the role of borrowings in the Bancorp s liquidity management.

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

BUSINESS SEGMENT REVIEW

The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Wealth and Asset Management. Additional information on each business segment is included in Note 23 of the Notes to Condensed Consolidated Financial Statements. Results of the Bancorp s business segments are presented based on its management structure and management accounting practices. The structure and accounting practices are specific to the Bancorp; therefore, the financial results of the Bancorp s business segments are not necessarily comparable with similar information for other financial institutions. The Bancorp refines its methodologies from time to time as management s accounting practices and businesses change.

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

The Bancorp adjusts the FTP charge and credit rates as dictated by changes in interest rates for various interest-earning assets and interest-bearing liabilities and by the review of behavioral assumptions, such as prepayment rates on interest-earning assets and the estimated durations for indeterminate-lived deposits. Key assumptions, including the credit rates provided for deposit accounts, are reviewed annually. Credit rates for deposit products and charge rates for loan products may be reset more frequently in response to changes in market conditions. The credit rates for several deposit products were reset January 1, 2018 to reflect the current market rates and updated market assumptions. These rates were generally higher than those in place during 2017, thus net interest income for deposit-providing business segments was positively impacted during 2018. FTP charge rates on assets were affected by the prevailing level of interest rates and by the duration and repricing characteristics of the portfolio. As overall market rates increased, the FTP charge increased for asset-generating business segments during 2018.

The Bancorp s methodology for allocating provision for loan and lease losses expense to the business segments includes charges or benefits associated with changes in criticized commercial loan levels in addition to actual net charge-offs experienced by the loans and leases owned by each business segment. Provision for loan and lease losses expense attributable to loan and lease growth and changes in ALLL factors is captured in General Corporate and Other. The financial results of the business segments include allocations for shared services and headquarters expenses. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and funding operations by accessing the capital markets as a collective unit.

The results of operations and financial position for the three and nine months ended September 30, 2017 were adjusted to reflect changes in internal expense allocation methodologies.

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

TABLE 25: Net Income (Loss) by Business Segment

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2018**	2017	**2018**	2017
Income Statement Data				
Commercial Banking	**$ 298**	244	**843**	698
Branch Banking	**207**	124	**490**	338
Consumer Lending	**-**	12	**(13)**	11
Wealth and Asset Management	**25**	19	**70**	52
General Corporate and Other	**(97)**	615	**331**	586
Net income	**$ 433**	1,014	**1,721**	1,685

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Commercial Banking

Commercial Banking offers credit intermediation, cash management and financial services to large and middle-market businesses and government and professional customers. In addition to the traditional lending and depository offerings, Commercial Banking products and services include global cash management, foreign exchange and international trade finance, derivatives and capital markets services, asset-based lending, real estate finance, public finance, commercial leasing and syndicated finance.

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

TABLE 26: Commercial Banking

($ in millions)		For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Income Statement Data					
Net interest income (FTE)[(a)]	$	**431**	429	**1,285**	1,280
(Benefit from) provision for loan and lease losses		**(11)**	(3)	**(41)**	25
Noninterest income:					
Corporate banking revenue		**100**	100	**304**	272
Service charges on deposits		**68**	71	**207**	217
Other noninterest income		**67**	45	**170**	156
Noninterest expense:					
Personnel costs		**79**	71	**250**	225
Other noninterest expense		**266**	270	**839**	806
Income before income taxes (FTE)		**332**	307	**918**	869
Applicable income tax expense[(a)(b)]		**34**	63	**75**	171
Net income	$	**298**	244	**843**	698
Average Balance Sheet Data					
Commercial loans and leases, including held for sale	$	**54,685**	53,722	**54,305**	53,708
Demand deposits		**16,198**	19,292	**16,967**	19,466
Interest checking deposits		**12,511**	8,680	**11,303**	8,912
Savings and money market deposits		**3,691**	4,972	**4,263**	5,615
Other time deposits and certificates $100,000 and over		**268**	903	**401**	931
Foreign office deposits		**316**	391	**392**	391

*(a) Includes FTE adjustments of **$4** and $7 for the three months ended **September 30, 2018** and 2017, respectively, and **$12** and $19 for the nine months ended **September 30, 2018** and 2017, respectively.*

(b) Applicable income tax expense for all periods includes the tax benefit from tax-exempt income, tax-advantaged investments and tax credits, partially offset by the effect of certain nondeductible expenses. Refer to the Applicable Income Taxes subsection of the Statements of Income Analysis section of MD&A for additional information.

Net income was $298 million for the three months ended September 30, 2018 compared to net income of $244 million for the three months ended September 30, 2017. Net income was $843 million for the nine months ended September 30, 2018 compared to net income of $698 million for the nine months ended September 30, 2017. The increase for both periods was driven by decreases in the provision for loan and lease losses and increases in noninterest income and net interest income on an FTE basis partially offset by increases in noninterest expense.

Net interest income on an FTE basis increased $2 million and $5 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily driven by increases in yields on average commercial loans and leases and increases in FTP credits on interest checking deposits. These increases were partially offset by increases in FTP charge rates on loans and leases and increases in the rates paid on core deposits.

Provision for loan and lease losses decreased $8 million and $66 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The decrease for the three months ended September 30, 2018 compared to the same period in the prior year was primarily driven by a decrease in net charge-offs. The decrease for the nine months ended September 30, 2018 compared to the same period in the prior year was primarily driven by a decrease in criticized asset levels partially offset by an increase in net charge-offs. Net charge-offs as a percent of average portfolio loans and leases decreased to 12 bps and increased to 20 bps for the three and nine months ended September 30, 2018, respectively, compared to 19 bps for both periods in the prior year.

Noninterest income increased $19 million and $36 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for both the three and nine months ended September 30, 2018 was driven by an increase in other noninterest income partially offset by a decrease in service charges on deposits. Additionally, the increase for the nine months ended September 30, 2018 included the impact of an increase in corporate banking revenue. Other noninterest income increased $22 million and $14 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to an increase in private equity investment income. Service charges on deposits decreased $3 million and $10 million for three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. Corporate banking revenue increased $32 million for the nine months ended September 30, 2018 compared to the same period in the prior year driven by increases in lease remarketing fees, foreign exchange fees, institutional sales revenue and contract revenue from commercial customer derivatives partially offset by decreases in business lending fees and letter of credit fees. The increase in lease remarketing fees for the nine months ended September 30, 2018 included the impact of a $31 million impairment charge related to certain operating lease assets that was recognized during the first quarter of 2017.

Noninterest expense increased $4 million and $58 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2018 was due to an increase in personnel costs partially offset by a decrease in other noninterest expense. Personnel costs increased $8 million for the three months ended September 30, 2018 compared to the same period in the prior year due to increased base compensation. Other noninterest expense decreased $4 million for the three months ended September 30, 2018 compared to the same period in the prior year primarily due to decreases in consulting expense, impairment on affordable housing investments and OREO expense partially offset by increases in corporate overhead allocations. The increase for the nine months ended September 30, 2018 was a result of increases in both other noninterest expense and personnel costs. Other noninterest expense increased $33 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to increases in corporate overhead allocations and impairment on affordable housing investments partially offset by a decrease in consulting expense. Personnel costs increased $25 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to increased base compensation and incentive compensation.

Average commercial loans and leases increased $963 million and $597 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in average commercial and industrial loans and average commercial construction loans partially offset by decreases in average commercial leases and average commercial mortgage loans. Average commercial and industrial loans increased $1.1 billion and $522 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year as a result of an increase in new loan originations as well as a decrease in payoffs. Average commercial construction loans increased $310 million and $474 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in draw levels on existing commitments. Average commercial leases decreased $335 million and $159 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily as a result of a planned reduction in indirect non-relationship based lease originations. Average commercial mortgage loans decreased $146 million and $240 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year due to an increase in paydowns and lower new loan origination activity driven by increased competition.

Average core deposits decreased $620 million and $1.5 billion for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The decreases for the three and nine months ended September 30, 2018 were driven by decreases in average demand deposits of $3.1 billion and $2.5 billion, respectively, and average savings and money market deposits of $1.3 billion and $1.4 billion, respectively, compared to the same periods in the prior year primarily due to lower average balances per account. These decreases were partially offset by increases in average interest checking deposits of $3.8 billion and $2.4 billion for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to balance migration from demand deposit accounts and increases in average balances per account.

Branch Banking

Branch Banking provides a full range of deposit and loan products to individuals and small businesses through 1,152 full-service banking centers. Branch Banking offers depository and loan products, such as checking and savings accounts, home equity loans and lines of credit, credit cards and loans for automobiles and other personal financing needs, as well as products designed to meet the specific needs of small businesses, including cash management services.

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

TABLE 27: Branch Banking

		For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)		**2018**	2017	**2018**	2017
Income Statement Data					
Net interest income	$	**525**	453	**1,490**	1,320
Provision for loan and lease losses		**34**	35	**124**	115
Noninterest income:					
Service charges on deposits		**71**	67	**205**	196
Card and processing revenue		**67**	64	**199**	185
Wealth and asset management revenue		**38**	35	**113**	106
Other noninterest income		**28**	25	**41**	76
Noninterest expense:					
Personnel costs		**131**	126	**404**	387
Net occupancy and equipment expense		**56**	56	**168**	172
Card and processing expense		**30**	31	**89**	93
Other noninterest expense		**216**	206	**642**	595
Income before income taxes		**262**	190	**621**	521
Applicable income tax expense		**55**	66	**131**	183
Net income	$	**207**	124	**490**	338
Average Balance Sheet Data					
Consumer loans	$	**13,069**	12,905	**12,992**	13,013
Commercial loans		**1,972**	1,915	**1,919**	1,928
Demand deposits		**14,403**	13,875	**14,310**	13,839
Interest checking deposits		**10,065**	10,228	**10,232**	10,231
Savings and money market deposits		**29,786**	27,671	**29,260**	27,539
Other time deposits and certificates $100,000 and over		**5,443**	4,903	**5,238**	4,962

Net income was $207 million for the three months ended September 30, 2018 compared to net income of $124 million for the three months ended September 30, 2017. Net income was $490 million for the nine months ended September 30, 2018 compared to $338 million for the nine months ended September 30, 2017. The increase for both periods was driven by increases in net interest income partially offset by increases in noninterest expense.

Net interest income increased $72 million and $170 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase in net interest income for both periods was primarily due to increases in FTP credit rates on core deposits as well as increases in interest income on other consumer loans driven by higher average balances. These benefits were partially offset by increases in FTP charge rates on loans and leases and increases in the rates paid on savings and money market deposits. Additionally, for the nine months ended September 30, 2018, the increase in net interest income was partially offset by the impact of a

$12 million benefit in the first quarter of 2017 related to a revised estimate of refunds to be offered to certain bankcard customers.

Provision for loan and lease losses decreased $1 million and increased $9 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for the nine months ended September 30, 2018 was primarily due to increases in net charge-offs on other consumer loans and credit card. Net charge-offs as a percent of average portfolio loans and leases increased to 99 bps and 111 bps for the three and nine months ended September 30, 2018, respectively, compared to 96 bps and 103 bps for the three and nine months ended September 30, 2017, respectively.

Noninterest income increased $13 million and decreased $5 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2018 compared to the same period in the prior year was primarily due to increases in service charges on deposits, card and processing revenue, wealth and asset management revenue and other noninterest income of $4 million, $3 million, $3 million and $3 million, respectively. The decrease for the nine months ended September 30, 2018 compared to the same period in the prior year was primarily due to a decrease in other noninterest income partially offset by increases in card and processing revenue, service charges on deposits and wealth and asset management revenue. Other noninterest income decreased $35 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to the impact of impairment on bank premises and equipment. Card and processing revenue increased $14 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily driven by increases in the number of actively used cards and customer spend volume. Service charges on deposits increased $9 million for the nine months ended September 30, 2018 compared to the same period in the prior year. Wealth and asset management revenue increased $7 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily driven by an increase in brokerage fees and private client service fees.

Noninterest expense increased $14 million and $56 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in other noninterest expense and personnel costs. Other noninterest expense increased $10 million and $47 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in corporate overhead allocations and loan and lease expense. Personnel costs increased $5 million and $17 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to higher base compensation.

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

Average consumer loans increased $164 million and decreased $21 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The change for both the three and nine months ended September 30, 2018 compared to the same periods in the prior year was impacted by increases in average other consumer loans of $1.1 billion and $993 million, respectively, primarily due to growth in point-of-sale loan originations and decreases in both average home equity loans of $536 million and $542 million, respectively, and average residential mortgage loans of $305 million and $314 million, respectively, as payoffs exceeded new loan production.

Average core deposits increased $2.9 billion and $2.4 billion for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for both periods was primarily driven by growth in average savings and money market deposits of $2.1 billion and $1.7 billion and growth in average demand deposits of $528 million and $471 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in average balances per customer account and the acquisition of new customers.

Consumer Lending

Consumer Lending includes the Bancorp s residential mortgage, home equity, automobile and other indirect lending activities. Lending activities include the origination, retention and servicing of residential mortgage and home equity loans or lines of credit, sales and securitizations of those loans, pools of loans or lines of credit and all associated hedging activities. Indirect lending activities include extending loans to consumers through correspondent lenders and automobile dealers.

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

TABLE 28: Consumer Lending

		For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)		**2018**	2017	**2018**	2017
Income Statement Data					
Net interest income	$	**60**	59	**178**	179
Provision for loan and lease losses		**10**	8	**30**	30
Noninterest income:					
Mortgage banking net revenue		**48**	61	**153**	164
Other noninterest income		**2**	7	**(7)**	18
Noninterest expense:					
Personnel costs		**46**	46	**148**	142
Other noninterest expense		**54**	55	**162**	171
(Loss) income before income taxes		**-**	18	**(16)**	18
Applicable income tax (benefit) expense		**-**	6	**(3)**	7

Net (loss) income	$	**-**	12	**(13)**	11
Average Balance Sheet Data					
Residential mortgage loans, including held for sale	$	**11,896**	11,672	**11,805**	11,422
Home equity		**237**	285	**249**	299
Automobile loans		**8,668**	8,826	**8,669**	8,995

Consumer Lending reported an immaterial amount of net income for the three months ended September 30, 2018 compared to net income of $12 million for the three months ended September 30, 2017. Consumer Lending incurred a net loss of $13 million for the nine months ended September 30, 2018 compared to net income of $11 million for the nine months ended September 30, 2017. The decrease for both periods was driven by decreases in noninterest income partially offset by decreases in the noninterest expense.

Provision for loan and lease losses increased $2 million and was flat for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. Net charge-offs as a percent of average portfolio loans and leases were 20 bps for both the three and nine months ended September 30, 2018 compared to 15 bps and 20 bps for the same periods in the prior year, respectively.

Noninterest income decreased $18 million and $36 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year due to decreases in both mortgage banking net revenue and other noninterest income. Mortgage banking net revenue decreased $13 million and $11 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to decreases in origination fees and gains on loan sales partially offset by increases in net mortgage servicing revenue. Refer to the Noninterest Income subsection of the Statements of Income Analysis section of the MD&A for additional information on the fluctuations in mortgage banking net revenue. Other noninterest income decreased $5 million and $25 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in losses on securities related to non-qualifying hedges on MSRs resulting from increased interest rates.

Noninterest expense decreased $1 million and $3 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in prior year. Other noninterest expense decreased $9 million for the nine months ended September 30, 2018 compared to the same period in prior year primarily due to decreases in operational losses and loan and lease expense. Personnel costs increased $6 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to an increase in base compensation.

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

Average consumer loans increased $18 million and $7 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. Average residential mortgage loans increased $224 million and $383 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily driven by the continued retention of certain agency conforming ARMs and certain other fixed-rate loans. Average automobile loans decreased $158 million and $326 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year as payoffs exceeded new loan production due to a strategic shift focusing on improving risk-adjusted returns.

Wealth and Asset Management

Wealth and Asset Management provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. Wealth and Asset Management is made up of five main businesses: FTS; ClearArc Capital, Inc.; Fifth Third Insurance Agency, Inc.; Fifth Third Private Bank; and Fifth Third Institutional Services. FTS offers full service retail brokerage services to individual clients and broker-dealer services to the institutional marketplace. ClearArc Capital, Inc. provides asset management services. Fifth Third Insurance Agency, Inc. assists clients with their financial and risk management needs. Fifth Third Private Bank offers holistic strategies to affluent clients in wealth planning, investing, insurance and wealth protection. Fifth Third Institutional Services provides advisory services for institutional clients including states and municipalities.

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

TABLE 29: Wealth and Asset Management

	For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)	**2018**	2017	**2018**	2017
Income Statement Data				
Net interest income	$ **46**	38	**134**	114
Provision for (benefit from) loan and lease losses	**3**	(1)	**8**	2
Noninterest income:				
Wealth and asset management revenue	**110**	99	**324**	304
Other noninterest income	**5**	2	**20**	8
Noninterest expense:				
Personnel costs	**50**	42	**154**	136
Other noninterest expense	**76**	69	**227**	209
Income before income taxes	**32**	29	**89**	79
Applicable income tax expense	**7**	10	**19**	27
Net income	$ **25**	19	**70**	52
Average Balance Sheet Data				
Loans and leases, including held for sale	$ **3,449**	3,265	**3,410**	3,257
Core deposits	**9,029**	8,543	**9,266**	8,721

Net income was $25 million for the three months ended September 30, 2018 compared to net income of $19 million for the three months ended September 30, 2017. Net income was $70 million for the nine months ended September 30, 2018 compared to $52 million for the nine months ended September 30, 2017. The increases for both periods were driven primarily by increases in noninterest income and net interest income partially offset by increases in noninterest expense and provision for loan and lease losses.

Net interest income increased $8 million and $20 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in FTP credit rates on interest checking deposits and savings and money market deposits as well as increases in yields on average loans and leases. These positive impacts were partially offset by increases in the rates paid on interest checking deposits as well as an increase in FTP charge rates on loans and leases.

Provision for loan and lease losses increased $4 million and $6 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven by an increase in net charge-offs partially offset by the impact of the benefit of lower criticized assets.

Noninterest income increased $14 million and $32 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven by increases in wealth and asset management revenue and other noninterest income. Wealth and asset management revenue increased $11 million and $20 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in private client service fees and brokerage fees driven by an increase in assets under management as a result of strong market performance and increased asset production. Other noninterest income increased $3 million and $12 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year due to increases in insurance income as a result of acquisitions in 2017.

Noninterest expense increased $15 million and $36 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year as a result of increases in personnel costs and other noninterest expense. Personnel costs increased $8 million and $18 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven by increases in base compensation and incentive compensation driven by the aforementioned acquisitions in 2017. Other noninterest expense increased $7 million and $18 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily driven by increases in corporate overhead allocations.

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

Average loans and leases increased $184 million and $153 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven by increases in average commercial and industrial loans and average residential mortgage loans due to increases in new loan origination activity. These increases were partially offset by a decline in average home equity balances.

Average core deposits increased $486 million and $545 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year primarily due to increases in average interest checking deposits and average savings and money market deposits.

General Corporate and Other

General Corporate and Other includes the unallocated portion of the investment securities portfolio, securities gains and losses, certain non-core deposit funding, unassigned equity, unallocated provision for loan and lease losses expense or a benefit from the reduction of the ALLL, the payment of preferred stock dividends and certain support activities and other items not attributed to the business segments.

Net interest income decreased $13 million for the three months ended September 30, 2018 compared to the same period in the prior year driven by increases in FTP credit rates on deposits allocated to the business segments and increases in interest expense on long-term debt and federal funds purchased as well as the impact of interest rate contracts hedging commercial and industrial loans. The decrease for the three months ended September 30, 2018 was partially offset by an increase in the benefit related to the FTP charges on loans and leases as well as an increase in interest income on taxable securities. Net interest income increased $16 million for the nine months ended September 30, 2018 compared to the same period in the prior year primarily driven by an increase in the benefit related to the FTP charges on loans and leases as well as an increase in interest income on taxable securities. The increase for the nine months ended September 30, 2018 was partially offset by increases in FTP credit rates on deposits allocated to the business segments, the impact of interest rate contracts hedging commercial and industrial loans as well as an increase in interest expense on long-term debt and federal funds purchased.

The provision for loan and lease losses increased $22 million and was flat for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for the three months ended September 30, 2018 compared to the same period in the prior year was primarily due to a decrease in the allocation of provision expense to the business segments driven by a decrease in commercial criticized assets.

Noninterest income decreased $1 billion and $455 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year driven by the recognition of a $1.0 billion gain on the sale of Worldpay, Inc. shares during the third quarter of 2017. The decrease for nine months ended September 30, 2018 was partially offset by the recognition of a $205 million gain on the sale of Worldpay, Inc. shares during the second quarter of 2018 and a $414 million gain related to Vantiv, Inc. s acquisition of Worldpay Group plc. during the first quarter of 2018. Both periods were impacted by negative valuation adjustments related to the Visa total return swap which were $17 million and $66 million for the three and nine months ended September 30, 2018, respectively, compared with $47 million and $69 million for the same periods in the prior year. Additionally, equity method earnings from the Bancorp s interest in Worldpay Holding, LLC decreased $11 million and $36 million compared to the three and nine months ended September 30, 2017, respectively, primarily due to a decrease in the Bancorp s ownership percentage in Worldpay Holding, LLC and the impact of Worldpay, Inc. s acquisition and integration costs on its earnings.

Noninterest expense increased $4 million and $30 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. The increase for both periods was primarily due to increases in technology and communications expense and personnel costs partially offset by increases in corporate overhead allocations from General Corporate and Other to the other business segments. Additionally, the nine months ended September 30, 2018 included an increase of $10 million in donations expense compared to the same period in the prior year as a result of a contribution to the Fifth Third Foundation in the second quarter of 2018 partially offset by an increased benefit from the reserve for unfunded commitments for the same period.

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

RISK MANAGEMENT OVERVIEW

Risk management is critical for effectively serving customers financial needs while protecting the Bancorp and achieving strategic goals. It is also essential to reducing the volatility of earnings and safeguarding our brand and reputation. Further, risk management is integral to the Bancorp s strategic and capital planning processes. It is essential that the Bancorp s business strategies consistently align to its overall risk appetite and capital considerations. Maintaining risks within the Bancorp s risk appetite requires that risks are understood by all employees across the enterprise, and appropriate risk mitigants and controls are in place to limit risk to within the risk appetite. To achieve this, the Bancorp implements a framework for managing risk that encompasses business as usual activities and the utilization of a risk process for identifying, assessing, managing, monitoring and reporting risks.

Fifth Third uses a structure consisting of three lines of defense in order to clarify the roles and responsibilities for effective risk management.

The risk taking functions within the lines of business comprise the first line of defense. The first line of defense originates risk through normal business as usual activities; therefore, it is essential that they monitor, assess and manage the risks being taken, implement controls necessary to mitigate those risks and take responsibility for managing their business within the Bancorp s risk appetite.

Control functions, such as the Risk Management organization, are the second line of defense and are responsible for providing challenge, oversight and governance of activities performed by the first line.

The Audit division is the third line of defense and provides an independent assessment of the Bancorp s internal control structure and related systems and processes. The Credit Risk Review division provides an independent assessment of credit risk, which includes evaluating the sufficiency of underwriting, documentation and approval processes for consumer and commercial credits, the accuracy of risk grades assigned to commercial credit exposure, nonaccrual status, specific reserves and monitoring for charge-offs.

Fifth Third s core values and culture provide a foundation for supporting sound risk management practices by setting expectations for appropriate conduct and accountability across the organization.

All employees are expected to conduct themselves in alignment with Fifth Third s core values and Code of Business Conduct & Ethics, which may be found on www.53.com, while carrying out their responsibilities. Fifth Third s Corporate Responsibility and Reputation Committee provides oversight of business conduct policies, programs and strategies and monitors reporting of potential misconduct, trends or themes across the enterprise. Prudent risk management is a responsibility that is expected from all employees across the first, second and third lines of defense and is a foundational element of Fifth Third s culture.

Below are the Bancorp s core principles of risk management that are used to ensure the Bancorp is operating in a safe and sound manner:

Understand the risks taken as a necessary part of business; however, the Bancorp ensures risks taken are in alignment with its strategy and risk appetite.

Provide transparency and escalate risks and issues as necessary.

Ensure Fifth Third s products and services are designed, delivered and maintained to provide value and benefit to its customers and to Fifth Third, and that potential opportunities remain aligned to the core customer base.

Avoid risks that cannot be understood, managed and monitored.

Act with integrity in all activities.

Focus on providing operational excellence by providing reliable, accurate and efficient services to meet customer s needs.

Maintain a strong financial position to ensure that the Bancorp meets its strategic objectives through all economic cycles and is able to access the capital markets at all times, even under stressed conditions.

Protect the Bancorp s reputation by thoroughly understanding the consequences of business strategies, products and processes.

Conduct business in compliance with all applicable laws, rules and regulations and in alignment with internal policies and procedures.

Fifth Third s success is dependent on effective risk management and understanding and controlling the risks taken in order to deliver sustainable returns for employees and shareholders. The Bancorp s goal is to ensure that aggregate risks do not exceed its risk capacity, and that risks taken are supportive of the Bancorp s portfolio diversification and profitability objectives.

Fifth Third s Risk Management Framework states its risk appetite and the linkage to strategic and capital planning, defines and sets the tolerance for each of the eight risk types, explains the process used to manage risk across the enterprise and sets forth its risk governance structure.

The Board of Directors (the Board) and executive management define the risk appetite, which is considered in the development of business strategies, and forms the basis for enterprise risk management. The Bancorp s risk appetite is set annually in alignment with the strategic, capital and financial plans, and is reviewed by the Board on an annual basis.

The Risk Management Process provides a consistent and integrated approach for managing risks and ensuring appropriate risk mitigants and controls are in place, and risks and issues are appropriately escalated. Five components are utilized for effective risk management; identifying, assessing, managing, monitoring and reporting risks.

The Board and executive management have identified eight risk types for monitoring the overall risk of the Bancorp; Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Regulatory Compliance Risk, Legal Risk, Reputation Risk and Strategic Risk, and have also qualitatively established a risk tolerance, which is defined as the maximum amount of risk the Bancorp is willing to take for each of the eight risk types. These risk types are assessed on an ongoing basis and reported to the board each quarter, or more frequently, if necessary. In addition, each business and operational function (first line of defense) is accountable for proactively identifying and managing risk using its risk management process. Risk tolerances and risk limits are also established, where appropriate, in order to ensure that businesses and operational functions across the enterprise are able to monitor and manage risks at a more granular level, while ensuring that aggregate risks across the enterprise do not exceed the overall risk appetite.

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

The Bancorp s risk governance structure includes management committees operating under delegation from, and providing information directly or indirectly to, the Board. The Bancorp Board delegates certain responsibilities to Board sub-committees, including the RCC as outlined in each respective Committee Charter, which may be found on www.53.com. The ERMC, which reports to the RCC, comprises senior management from across the Bancorp and reviews and approves risk management frameworks and policies, oversees the management of all risk types to ensure that aggregated risks remain within the Bancorp s risk appetite and fosters a risk culture to ensure appropriate escalation and transparency of risks.

CREDIT RISK MANAGEMENT

The objective of the Bancorp s credit risk management strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations to the Bancorp. The Bancorp s credit risk management strategy is based on three core principles: conservatism, diversification and monitoring. The Bancorp believes that effective credit risk management begins with conservative lending practices which are described below. These practices include the use of intentional risk-based limits for single name exposures and counterparty selection criteria designed to reduce or eliminate exposure to borrowers who have higher than average default risk and defined weaknesses in financial performance. The Bancorp carefully designed and monitors underwriting, documentation and collection standards. The Bancorp s credit risk management strategy also emphasizes diversification on a geographic, industry and customer level as well as ongoing portfolio monitoring and timely management reviews of large credit exposures and credits experiencing deterioration of credit quality. Credit officers with the authority to extend credit are delegated specific authority amounts, the utilization of which is closely monitored. Underwriting activities are centrally managed, and ERM manages the policy and the authority delegation process directly. The Credit Risk Review function provides independent and objective assessments of the quality of underwriting and documentation, the accuracy of risk grades and the charge-off, nonaccrual and reserve analysis process. The Bancorp s credit review process and overall assessment of the adequacy of the allowance for credit losses is based on quarterly assessments of the probable estimated losses inherent in the loan and lease portfolio. The Bancorp uses these assessments to promptly identify potential problem loans or leases within the portfolio, maintain an adequate allowance for credit losses and take any necessary charge-offs. The Bancorp defines potential problem loans and leases as those rated substandard that do not meet the definition of a nonaccrual loan or a restructured loan. Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for further information on the Bancorp s credit grade categories, which are derived from standard regulatory rating definitions. In addition, stress testing is performed on various commercial and consumer portfolios using the CCAR model and for certain portfolios, such as real estate and leveraged lending, the stress testing is performed by Credit department personnel at the individual loan level during credit underwriting.

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

TABLE 30: Potential Problem Portfolio Loans and Leases

As of September 30, 2018 ($ in millions)	Carrying Value	Unpaid Principal Balance	Exposure

Commercial and industrial loans	**$**	**558**	**558**	**801**
Commercial mortgage loans		**111**	**112**	**111**
Commercial leases		**60**	**60**	**60**
Total potential problem portfolio loans and leases	**$**	**729**	**730**	**972**

TABLE 31: Potential Problem Portfolio Loans and Leases

As of December 31, 2017 ($ in millions)		Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial loans	$	911	912	1,370
Commercial mortgage loans		138	138	138
Commercial leases		70	70	70
Total potential problem portfolio loans and leases	$	1,119	1,120	1,578

In addition to the individual review of larger commercial loans that exhibit probable or observed credit weaknesses, the commercial credit review process includes the use of two risk grading systems. The risk grading system currently utilized for allowance for credit loss analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system for credit approval and pricing, portfolio monitoring and capital allocation that includes a through-the-cycle rating philosophy for assessing a borrower s creditworthiness. A through-the-cycle rating philosophy uses a grading scale that assigns ratings based on average default rates through an entire business cycle for borrowers with similar financial performance. The dual risk rating system includes thirteen probabilities of default grade categories and an additional eleven grade categories for estimating losses given an event of default. The probability of default and loss given default evaluations are not separated in the ten-category risk rating system. The Bancorp has completed significant validation and testing of the dual risk rating system as a commercial credit risk management tool. The Bancorp is assessing the necessary modifications to the dual risk rating system outputs to develop a U.S. GAAP compliant ALLL model and will evaluate the use of modified dual risk ratings for purposes of determining the Bancorp s ALLL as part of the Bancorp s adoption of ASU 2016-13 *Measurement of Credit Losses on Financial Instruments*, which will be effective for the Bancorp on January 1, 2020. Scoring systems, various analytical tools and portfolio performance monitoring are used to assess the credit risk in the Bancorp s homogenous consumer and small business loan portfolios.

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

Overview

Inflationary expectations by market professionals continue to have an increased focus on wages, interest rates, input costs, tariffs, trade negotiations and foreign exchange. During September 2018, the FOMC enacted an additional 25 bp increase in the target rate for Federal Funds. The Federal Reserve median forecast for change in 2018 real GDP was again raised this quarter to 3.1%. The Federal Reserve, in their minutes, continues to be concerned that tariffs could hurt the current economic recovery but are waiting to see evidence of any damage. Also concerning is the recent slowdown in homebuilding. Interest rates are expected to rise one more time in 2018 and multiple times during 2019, with no major downturns expected until 2021.

The Bancorp maintains a focus on commercial real estate exposure. Market data and vacancies remain positive. Competition for term loans on stabilized or near-stabilized assets has become increasingly more aggressive in terms of pricing, recourse and repayment structures, as banks seek to diversify away from construction. Construction costs continue to escalate and will likely be exacerbated by the impact of tariffs. The Bancorp is also monitoring potential increased risks in the Retail sector as a result of changes in distribution models with increasing levels of online purchasing and recent weakness in certain specialty retailers. However, the Bancorp is seeing an interesting trend in brick and mortar retailers called clicks to bricks . Mixed use retail centers are continuing to be developed and successfully leased up. The Bancorp has been focused on tenants that have multi-channel distribution and/or provide entertainment such as restaurants, cosmetic stores, fitness, grocery and drug. The Bancorp is now seeing retailers that originated as exclusively online distributers shift to bricks and mortar locations.

During the third quarter of 2018, the southeastern United States experienced a major hurricane impacting the eastern portions of the states of North Carolina and South Carolina. The Bancorp has limited credit exposure in the coastal regions of both states, however assistance was provided to customers that were negatively impacted. There is no expectation of any material net charge-offs as a result of the hurricane.

Commercial Portfolio

The Bancorp s credit risk management strategy seeks to minimize concentrations of risk through diversification. The Bancorp has commercial loan concentration limits based on industry, lines of business within the commercial segment, geography and credit product type. The risk within the commercial loan and lease portfolio is managed and monitored through an underwriting process utilizing detailed origination policies, continuous loan level reviews, monitoring of industry concentration and product type limits and continuous portfolio risk management reporting.

The Bancorp provides loans to a variety of customers ranging from large multi-national firms to middle market businesses, sole proprietors and high net worth individuals. The origination policies for commercial and industrial loans outline the risks and underwriting requirements for loans to businesses in various industries. Included in the policies are maturity and amortization terms, collateral and leverage requirements, cash flow coverage measures and hold limits. The Bancorp aligns credit and sales teams with specific industry expertise to better monitor and manage different industry segments of the portfolio.

The origination policies for commercial real estate outline the risks and underwriting requirements for owner and nonowner-occupied and construction lending. Included in the policies are maturity and amortization terms, maximum LTVs, minimum debt service coverage ratios, construction loan monitoring procedures, appraisal requirements, pre-leasing requirements (as applicable), sensitivity and pro forma analysis requirements and interest rate sensitivity. The Bancorp requires a valuation of real estate collateral, which may include third-party appraisals, be performed at the time of origination and renewal in accordance with regulatory requirements and on an as-needed basis when market conditions justify. Although the Bancorp does not back test these collateral value assumptions, the Bancorp maintains an appraisal review department to order and review third-party appraisals in accordance with regulatory requirements. Collateral values on criticized assets with relationships exceeding $1 million are reviewed quarterly to assess the appropriateness of the value ascribed in the assessment of charge-offs and specific reserves.

The Bancorp assesses all real estate and non-real estate collateral securing a loan and considers all cross-collateralized loans in the calculation of the LTV ratio. The following tables provide detail on the most recent LTV ratios for commercial mortgage loans greater than $1 million, excluding impaired commercial mortgage loans individually evaluated. The Bancorp does not typically aggregate the LTV ratios for commercial mortgage loans less than $1 million.

TABLE 32: Commercial Mortgage Loans Outstanding by LTV, Loans Greater Than $1 Million

As of September 30, 2018 ($ in millions)		LTV > 100%	LTV 80-100%	LTV < 80%
Commercial mortgage owner-occupied loans	**$**	**120**	**163**	**2,175**
Commercial mortgage nonowner-occupied loans		**10**	**63**	**2,354**
Total	**$**	**130**	**226**	**4,529**

TABLE 33: Commercial Mortgage Loans Outstanding by LTV, Loans Greater Than $1 Million

As of December 31, 2017 ($ in millions)		LTV > 100%	LTV 80-100%	LTV < 80%
Commercial mortgage owner-occupied loans	$	79	110	2,222
Commercial mortgage nonowner-occupied loans		14	169	2,208
Total	$	93	279	4,430

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

The following table provides detail on commercial loans and leases by industry classification (as defined by the North American Industry Classification System), by loan size and by state, illustrating the diversity and granularity of the Bancorp s commercial loans and leases as of:

TABLE 34: Commercial Loan and Lease Portfolio (excluding loans and leases held for sale)

	September 30, 2018			December 31, 2017		
($ in millions)	Outstanding	Exposure	Nonaccrual	Outstanding	Exposure	Nonaccrual
By Industry:						
Manufacturing	**$ 10,160**	**19,518**	**63**	10,044	18,948	74
Real estate	**8,269**	**12,967**	**30**	7,713	12,493	25
Financial services and insurance	**6,224**	**12,699**	**2**	5,792	11,933	1
Healthcare	**4,484**	**6,286**	**30**	4,712	6,486	35
Business services	**4,158**	**7,024**	**31**	4,147	6,512	42
Retail trade	**3,446**	**7,250**	**3**	3,617	7,950	3
Accommodation and food	**3,379**	**5,481**	**26**	3,268	5,321	4
Wholesale trade	**3,285**	**5,585**	**15**	3,017	5,363	6
Communication and information	**2,931**	**5,541**	**-**	3,322	5,308	-
Transportation and warehousing	**2,824**	**4,800**	**22**	3,012	4,621	29
Construction	**2,493**	**4,600**	**3**	2,374	4,449	2
Mining	**2,253**	**3,938**	**40**	1,454	3,001	56
Entertainment and recreation	**1,537**	**3,102**	**1**	1,624	2,911	7
Utilities	**855**	**2,499**	**-**	869	2,333	-
Other services	**814**	**1,045**	**10**	714	1,017	16
Public administration	**485**	**692**	-	370	474	-
Agribusiness	**254**	**425**	**2**	304	478	2
Individuals	**64**	**103**	**-**	27	57	-
Other	**-**	**-**	**-**	15	15	4
Total	**$ 57,915**	**103,555**	**278**	56,395	99,670	306
By Size:						
Less than $200,000	**1 %**	**1**	**5**	1	1	5
$200,000 - $1 million	**2**	**2**	**7**	3	2	8
$1 million - $5 million	**7**	**6**	**18**	7	6	15
$5 million - $10 million	**6**	**5**	**13**	6	5	10
$10 million - $25 million	**20**	**17**	**48**	21	18	57
Greater than $25 million	**64**	**69**	**9**	62	68	5
Total	**100 %**	**100**	**100**	100	100	100

By State:						
Ohio	**14 %**	**14**	**6**	14	15	7
Florida	**8**	**8**	**17**	8	8	6
Michigan	**7**	**7**	**8**	7	7	13
Illinois	**6**	**6**	**7**	7	6	9
Indiana	**4**	**4**	**9**	4	4	3
Georgia	**4**	**5**	**9**	4	5	2
North Carolina	**3**	**3**	**1**	3	3	1
Tennessee	**3**	**3**	**-**	3	3	8
Kentucky	**3**	**3**	**1**	3	3	1
Other	**48**	**47**	**42**	47	46	50
Total	**100 %**	**100**	**100**	100	100	100

The Bancorp s nonowner-occupied commercial real estate portfolios have been identified by the Bancorp as loans which it believes represent a higher level of risk compared to the rest of the Bancorp s commercial loan portfolio due to economic or market conditions within the Bancorp s key lending areas.

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

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

TABLE 35: Nonowner-Occupied Commercial Real Estate (excluding loans held for sale)[(a)]

As of September 30, 2018 ($ in millions)						**Net Charge-offs (Recoveries) fo** **September 30, 2018**	
		Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:							
Ohio	$	**1,641**	**2,079**	**-**	**1**	**-**	**-**
Florida		**1,000**	**1,578**	**-**	**-**	**-**	**-**
North Carolina		**739**	**985**	**-**	**-**	**-**	**-**
Illinois		**677**	**920**	**-**	**-**	**-**	**-**
Michigan		**604**	**725**	**-**	**-**	**(1)**	**-**
Indiana		**528**	**822**	**-**	**-**	**-**	**-**
All other states		**2,849**	**4,664**	**-**	**2**	**-**	**1**
Total	**$**	**8,038**	**11,773**	**-**	**3**	**(1)**	**1**

(a) Included in commercial mortgage loans and commercial construction loans in the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A.

TABLE 36: Nonowner-Occupied Commercial Real Estate (excluding loans held for sale)[(a)]

As of September 30, 2017 ($ in millions)						Net Charge-offs for September 30, 2017	
		Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:							
Ohio	$	1,695	2,219	-	2	-	8
Florida		1,040	1,536	-	1	-	-
North Carolina		499	754	-	-	-	-
Illinois		755	1,042	-	-	-	-
Michigan		573	732	-	1	-	-
Indiana		611	973	-	-	-	-

All other states		2,801	4,717	-	2	1	1
Total	$	7,974	11,973	-	6	1	9

(a) Included in commercial mortgage loans and commercial construction loans in the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A.

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

Consumer Portfolio

Consumer credit risk management utilizes a framework that encompasses consistent processes for identifying, assessing, managing, monitoring and reporting credit risk. These processes are supported by a credit risk governance structure that includes Board oversight, policies, risk limits and risk committees.

The Bancorp s consumer portfolio is materially comprised of five categories of loans: residential mortgage loans, home equity, automobile loans, credit card and other consumer loans. The Bancorp has identified certain credit characteristics within these five categories of loans which it believes represent a higher level of risk compared to the rest of the consumer loan portfolio. The Bancorp does not update LTV ratios for the consumer portfolio subsequent to origination except as part of the charge-off process for real estate secured loans. Among consumer portfolios, legacy underwritten residential mortgage and brokered home equity portfolios exhibited the most stress during the past credit crisis. As of September 30, 2018, consumer real estate loans, consisting of residential mortgage loans and home equity loans, originated from 2005 through 2008 represent approximately 12% of the consumer real estate portfolio. These loans accounted for 51% of total consumer real estate secured losses for the nine months ended September 30, 2018. Current loss rates in the residential mortgage and home equity portfolios are below pre-crisis levels. In addition to the consumer real estate portfolio, credit risk management continues to closely monitor the automobile portfolio performance. The automobile market has exhibited industry-wide gradual loosening of credit standards such as lower FICOs, longer terms and higher LTVs. The Bancorp has adjusted credit standards focused on improving risk-adjusted returns while maintaining credit risk tolerance. The Bancorp actively manages the automobile portfolio through concentration limits, which mitigates credit risk through limiting the exposure to lower FICO scores, higher advance rates and extended term originations.

Residential mortgage portfolio

The Bancorp manages credit risk in the residential mortgage portfolio through underwriting guidelines that limit exposure to higher LTV ratios and lower FICO scores. Additionally, the portfolio is governed by concentration limits that ensure geographic, product and channel diversification. The Bancorp may also package and sell loans in the portfolio.

The Bancorp does not originate mortgage loans that permit customers to defer principal payments or make payments that are less than the accruing interest. The Bancorp originates both fixed-rate and ARM loans. Within the ARM portfolio, approximately $659 million of ARM loans will have rate resets during the next twelve months. Of these resets, 99.5% are expected to experience an increase in rate, with an average increase of approximately one percent.

Certain residential mortgage products have contractual features that may increase credit exposure to the Bancorp in the event of a decline in housing values. These types of mortgage products offered by the Bancorp include loans with high LTV ratios, multiple loans on the same collateral that when combined result in a LTV greater than 80% and interest-only loans. The Bancorp has deemed residential mortgage loans with greater than 80% LTV ratios and no mortgage insurance as loans that represent a higher level of risk.

Portfolio residential mortgage loans from 2010 and later vintages represented 92% of the portfolio as of September 30, 2018 and had a weighted-average LTV of 73% and a weighted-average origination FICO of 760.

The following table provides an analysis of the residential mortgage portfolio loans outstanding by LTV at origination as of:

TABLE 37: Residential Mortgage Portfolio Loans by LTV at Origination

		September 30, 2018			December 31, 2017	
($ in millions)		Outstanding	Weighted-Average LTV		Outstanding	Weighted-Average LTV
LTV £ 80%	**$**	**11,629**	**66.7 %**	$	11,767	66.4%
LTV > 80%, with mortgage insurance[(a)]		**1,999**	**95.1**		1,890	94.8
LTV > 80%, no mortgage insurance		**1,957**	**94.4**		1,934	94.7
Total	**$**	**15,585**	**74.2 %**	$	15,591	73.7%

(a) Includes loans with both borrower and lender paid mortgage insurance.

The following tables provide an analysis of the residential mortgage portfolio loans outstanding with a greater than 80% LTV ratio and no mortgage insurance:

TABLE 38: Residential Mortgage Portfolio Loans, LTV Greater than 80%, No Mortgage Insurance

As of September 30, 2018 ($ in millions)					**Net Charge-offs for September 30, 2018**	
		Outstanding	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:						
Ohio	**$**	**439**	**2**	**3**	**-**	**-**
Illinois		**395**	**-**	**2**	**-**	**-**
Florida		**286**	**1**	**2**	**-**	**-**
Michigan		**219**	**1**	**1**	**-**	**-**
Indiana		**145**	**1**	**-**	**-**	**-**
North Carolina		**91**	**-**	**1**	**-**	**-**
Kentucky		**80**	**-**	**-**	**-**	**-**
All other states		**302**	**2**	**1**	**-**	**1**
Total	**$**	**1,957**	**7**	**10**	**-**	**1**

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

TABLE 39: Residential Mortgage Portfolio Loans, LTV Greater than 80%, No Mortgage Insurance

As of September 30, 2017 ($ in millions)					Net Charge-offs for September 30, 2017	
		Outstanding	90 Days Past Due	Nonaccrual	Three Months Ended	Nine Months Ended
By State:						
Ohio	$	443	4	3	-	1
Illinois		380	-	2	-	-
Florida		288	1	2	-	1
Michigan		228	1	1	-	-
Indiana		138	1	1	-	-
North Carolina		87	-	1	-	-
Kentucky		74	1	-	-	-
All other states		295	3	2	-	-
Total	$	1,933	11	12	-	2

Home equity portfolio

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

The ALLL provides coverage for probable and estimable losses in the home equity portfolio. The allowance attributable to the portion of the home equity portfolio that has not been restructured in a TDR is calculated on a pooled basis with senior lien and junior lien categories segmented in the determination of the probable credit losses in the home equity portfolio. The modeled loss factor for the home equity portfolio is based on the trailing twelve month historical loss rate for each category, as adjusted for certain prescriptive loss rate factors and certain qualitative adjustment factors to reflect risks associated with current conditions and trends. The prescriptive loss rate factors include adjustments for delinquency trends, LTV trends and refreshed FICO score trends. The qualitative factors include adjustments for changes in policies or procedures in underwriting, monitoring or collections, economic conditions, portfolio mix, lending and risk management personnel, results of internal audit and quality control reviews, collateral values and geographic concentrations. The Bancorp considers home price index trends when determining the collateral value qualitative factor.

The home equity portfolio is managed in two primary groups: loans outstanding with a combined LTV greater than 80% and those loans with a LTV of 80% or less based upon appraisals at origination. For additional information on these loans, refer to Table 41 and Table 42. Of the total $6.5 billion of outstanding home equity loans:

- 89% reside within the Bancorp s Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois as of September 30, 2018;

- 37% are in senior lien positions and 63% are in junior lien positions at September 30, 2018;
- 81% of non-delinquent borrowers made at least one payment greater than the minimum payment during the three months ended September 30, 2018; and
- The portfolio had an average refreshed FICO score of 745 at September 30, 2018.

The Bancorp actively manages lines of credit and makes adjustments in lending limits when it believes it is necessary based on FICO score deterioration and property devaluation. The Bancorp does not routinely obtain appraisals on performing loans to update LTV ratios after origination. However, the Bancorp monitors the local housing markets by reviewing various home price indices and incorporates the impact of the changing market conditions in its ongoing credit monitoring processes. For junior lien home equity loans which become 60 days or more past due, the Bancorp tracks the performance of the senior lien loans in which the Bancorp is the servicer and utilizes consumer credit bureau attributes to monitor the status of the senior lien loans that the Bancorp does not service. If the senior lien loan is found to be 120 days or more past due, the junior lien home equity loan is placed on nonaccrual status unless both loans are well-secured and in the process of collection. Additionally, if the junior lien home equity loan becomes 120 days or more past due and the senior lien loan is also 120 days or more past due, the junior lien home equity loan is assessed for charge-off. Refer to the Analysis of Nonperforming Assets subsection of the Risk Management section of MD&A for more information.

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

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

TABLE 40: Home Equity Portfolio Loans Outstanding by Refreshed FICO Score

	September 30, 2018		December 31, 2017	
($ in millions)	Outstanding	% of Total	Outstanding	% of Total
Senior Liens:				
FICO £ 659	**$ 230**	**4 %**	$ 246	4 %
FICO 660-719	**329**	**5**	358	5
FICO ³ 720	**1,809**	**28**	1,976	28
Total senior liens	**2,368**	**37**	2,580	37
Junior Liens:				
FICO £ 659	**488**	**7**	541	8
FICO 660-719	**781**	**12**	853	12
FICO ³ 720	**2,848**	**44**	3,040	43
Total junior liens	**4,117**	**63**	4,434	63
Total	**$ 6,485**	**100 %**	$ 7,014	100 %

The Bancorp believes that home equity portfolio loans with a greater than 80% combined LTV ratio present a higher level of risk. The following table provides an analysis of the home equity portfolio loans outstanding in a senior and junior lien position by LTV at origination:

TABLE 41: Home Equity Portfolio Loans Outstanding by LTV at Origination

	September 30, 2018		December 31, 2017	
		Weighted-		Weighted-
($ in millions)	Outstanding	Average LTV	Outstanding	Average LTV
Senior Liens:				
LTV £ 80%	**$ 2,066**	**54.6 %**	$ 2,266	54.9 %
LTV > 80%	**302**	**88.9**	314	88.9
Total senior liens	**2,368**	**59.2**	2,580	59.3
Junior Liens:				
LTV £ 80%	**2,396**	**67.3**	2,603	67.5
LTV > 80%	**1,721**	**90.2**	1,831	90.4
Total junior liens	**4,117**	**78.1**	4,434	78.3
Total	**$ 6,485**	**70.9 %**	$ 7,014	70.9 %

The following tables provide an analysis of home equity portfolio loans by state with a combined LTV greater than 80%:

TABLE 42: Home Equity Portfolio Loans Outstanding with a LTV Greater than 80%

As of September 30, 2018 ($ in millions)						**Net Charge-offs for September 30, 2018**	
				90 Days		Three Months	Nine Months
		Outstanding	Exposure	Past Due	Nonaccrual	Ended	Ended
By State:							
Ohio	**$**	**1,052**	**2,050**	**-**	**9**	**-**	**2**
Michigan		**311**	**511**	**-**	**5**	**-**	**1**
Illinois		**207**	**331**	**-**	**4**	**1**	**2**
Indiana		**138**	**239**	**-**	**3**	**-**	**-**
Kentucky		**123**	**233**	**-**	**2**	**-**	**-**
Florida		**62**	**90**	**-**	**2**	**-**	**-**
All other states		**130**	**196**	**-**	**3**	**-**	**-**
Total	**$**	**2,023**	**3,650**	**-**	**28**	**1**	**5**

TABLE 43: Home Equity Portfolio Loans Outstanding with a LTV Greater than 80%

As of September 30, 2017 ($ in millions)						Net Charge-offs for September 30, 2017	
				90 Days		Three Months	Nine Months
		Outstanding	Exposure	Past Due	Nonaccrual	Ended	Ended
By State:							
Ohio	$	1,040	1,908	-	7	1	3
Michigan		375	590	-	5	-	1
Illinois		236	366	-	4	1	2
Indiana		162	273	-	3	-	1
Kentucky		149	266	-	2	-	1
Florida		70	100	-	2	-	-
All other states		154	225	-	3	-	-
Total	$	2,186	3,728	-	26	2	8

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

Automobile portfolio

The Bancorp s automobile portfolio balances have declined since December 31, 2017 as payoffs exceeded new loan production due to a strategic shift focusing on improving risk-adjusted returns. Additionally, the concentration of lower FICO (£690) origination balances remained within targeted credit risk tolerance during the nine months ended September 30, 2018. All concentration and guideline changes are monitored monthly to ensure alignment with original credit performance and return projections.

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

TABLE 44: Automobile Portfolio Loans Outstanding by FICO Score at Origination

	September 30, 2018		December 31, 2017	
($ in millions)	Outstanding	% of Total	Outstanding	% of Total
FICO £ 690	**$ 1,621**	**18 %**	$ 1,563	17 %
FICO > 690	**7,381**	**82**	7,549	83
Total	**$ 9,002**	**100 %**	$ 9,112	100 %

The automobile portfolio is characterized by direct and indirect lending products to consumers. As of September 30, 2018, 44% of the automobile loan portfolio is comprised of loans collateralized by new automobiles. It is a common industry practice to advance on automobile loans an amount in excess of the automobile value due to the inclusion of negative equity trade-in, maintenance/warranty products, taxes, title and other fees paid at closing. The Bancorp monitors its exposure to these higher risk loans.

The following table provides an analysis of automobile portfolio loans outstanding by LTV at origination as of:

TABLE 45: Automobile Portfolio Loans Outstanding by LTV at Origination

	September 30, 2018		December 31, 2017	
($ in millions)	Outstanding	Weighted-Average LTV	Outstanding	Weighted-Average LTV
LTV £ 100%	**$ 5,613**	**82.3 %**	$ 5,814	82.1 %
LTV > 100%	**3,389**	**112.8**	3,298	112.4
Total	**$ 9,002**	**94.2 %**	$ 9,112	93.5 %

The following table provides an analysis of the Bancorp s automobile portfolio loans with a LTV at origination greater than 100%:

TABLE 46: Automobile Portfolio Loans Outstanding with a LTV Greater than 100%

As of ($ in millions)		Outstanding	90 Days Past Due and Accruing	Nonaccrual	Net Charge-offs for the Three Months Ended	Net Charge-offs for the Nine Months Ended
September 30, 2018	**$**	**3,389**	**6**	**1**	**6**	**19**
September 30, 2017		3,287	5	1	5	17

Credit card portfolio

The credit card portfolio consists of predominately prime accounts with 97% of loan balances existing within the Bancorp s footprint as of both September 30, 2018 and December 31, 2017. At September 30, 2018 and December 31, 2017, 72% and 76%, respectively, of the outstanding balances were originated through branch-based relationships with the remainder coming from direct mail campaigns and online acquisitions.

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

TABLE 47: Credit Card Portfolio Loans Outstanding by FICO Score at Origination

	September 30, 2018			December 31, 2017		
($ in millions)		Outstanding	% of Total		Outstanding	% of Total
FICO £ 659	**$**	**72**	**3 %**	$	61	3 %
FICO 660-719		**644**	**28**		581	25
FICO ³ 720		**1,609**	**69**		1,657	72
Total	**$**	**2,325**	**100 %**	$	2,299	100 %

Other consumer portfolio loans

The other consumer portfolio loans are comprised of secured and unsecured loans originated through the Bancorp s branch network as well as point-of-sale loans originated in connection with third-party financial technology companies. Outstanding balances for other consumer loans increased approximately $572 million, or 37%, from December 31, 2017 primarily due to an increase in originations in connection with third-party financial technology companies. Additionally, the Bancorp has approximately $337 million in unfunded commitments associated with loans originated in connection with third-party financial technology companies as of September 30, 2018. Fifth Third closely monitors the credit performance of these point-of-sale loans which, for Fifth Third, is impacted by the credit loss protection coverage provided by the third-party financial technology companies.

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

The following table provides an analysis of other consumer portfolio loans outstanding by product type at origination as of:

TABLE 48: Other Consumer Portfolio Loans Outstanding by Product Type at Origination

	September 30, 2018		December 31, 2017	
($ in millions)	Outstanding	% of Total	Outstanding	% of Total
Unsecured	**$ 554**	**26 %**	$ 461	30 %
Other secured	**492**	**23**	482	31
Point-of-sale	**1,085**	**51**	616	39
Total	**$ 2,131**	**100 %**	$ 1,559	100 %

Analysis of Nonperforming Assets

Nonperforming assets include nonaccrual loans and leases for which ultimate collectability of the full amount of the principal and/or interest is uncertain; restructured commercial and credit card loans which have not yet met the requirements to be classified as a performing asset; restructured consumer loans which are 90 days past due based on the restructured terms unless the loan is both well-secured and in the process of collection; and certain other assets, including OREO and other repossessed property. A summary of nonperforming assets is included in Table 49. For further information on the Bancorp s policies related to accounting for delinquent and nonperforming loans and leases, refer to the Nonaccrual Loans and Leases section of Note 1 of the Notes to Consolidated Financial Statements included in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2017.

Nonperforming assets were $483 million at September 30, 2018 compared to $495 million at December 31, 2017. At September 30, 2018, $35 million of nonaccrual loans were held for sale, compared to $6 million at December 31, 2017.

Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO were 0.48% as of September 30, 2018 compared to 0.53% as of December 31, 2017. Nonaccrual loans and leases secured by real estate were 28% of nonaccrual loans and leases as of September 30, 2018 compared to 33% as of December 31, 2017.

Commercial portfolio nonaccrual loans and leases were $278 million at September 30, 2018, a decrease of $28 million from December 31, 2017. Consumer portfolio nonaccrual loans and leases were $125 million at September 30, 2018, a decrease of $6 million from December 31, 2017. Refer to Tables 50 and 51 for rollforwards of the portfolio nonaccrual loans and leases.

OREO and other repossessed property was $45 million at September 30, 2018, compared to $52 million at December 31, 2017. The Bancorp recognized $2 million and $3 million in losses on the transfer, sale or write-down of OREO properties for the three months ended September 30, 2018 and 2017, respectively, and $6 million and $8 million in losses on the transfer, sale or write-down of OREO properties for the nine months ended September 30, 2018 and 2017, respectively.

For the three and nine months ended September 30, 2018, approximately $9 million and $24 million, respectively, of interest income would have been recognized if the nonaccrual and renegotiated loans and leases on nonaccrual status had been current in accordance with their original terms. For the three and nine months ended September 30, 2017 approximately $9 million and $28 million, respectively, of interest income would have been recognized. Although these values help demonstrate the costs of carrying nonaccrual credits, the Bancorp does not expect to recover the full amount of interest as nonaccrual loans and leases are generally carried below their principal balance.

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TABLE 49: Summary of Nonperforming Assets and Delinquent Loans

As of ($ in millions)		September 30, 2018	December 31, 2017
Nonaccrual portfolio loans and leases:			
Commercial and industrial loans	$	**69**	144
Commercial mortgage loans		**7**	12
Commercial leases		**22**	-
Residential mortgage loans[(a)]		**11**	17
Home equity		**58**	56
Automobile loans		**-**	-
Other consumer loans		**1**	-
Nonaccrual portfolio restructured loans and leases:			
Commercial and industrial loans		**171**	132
Commercial mortgage loans		**5**	14
Commercial leases		**4**	4
Residential mortgage loans[(a)]		**12**	13
Home equity		**16**	18
Automobile loans		**1**	1
Credit card		**26**	26
Total nonaccrual portfolio loans and leases[(b)]		**403**	437
OREO and other repossessed property		**45**	52
Total nonperforming portfolio assets		**448**	489
Nonaccrual loans held for sale		**18**	5
Nonaccrual restructured loans held for sale		**17**	1
Total nonperforming assets	$	**483**	495
Total portfolio loans 90 days past due and still accruing			
Commercial and industrial loans	$	**3**	3
Commercial mortgage loans		**1**	-
Residential mortgage loans[(a)]		**40**	57
Automobile loans		**11**	10
Credit card		**32**	27
Total portfolio loans 90 days past due and still accruing	$	**87**	97
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO		**0.48%**	0.53
ALLL as a percent of nonperforming portfolio assets		**243**	245

(a) *Information for all periods presented excludes advances made pursuant to servicing agreements for GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the VA. These advances were* ***$198*** *as of* ***September 30, 2018*** *and $290 as of December 31, 2017. The Bancorp recognized losses of* ***$1*** *and* ***$4*** *for both the three and nine months ended* ***September 30, 2018*** *and 2017, respectively, due to claim denials and curtailments associated with these insured or guaranteed loans.*

(b) *Includes* ***$4*** *and $3 of nonaccrual government insured commercial loans whose repayments are insured by the SBA at* ***September 30, 2018*** *and December 31, 2017, respectively, of which* ***$2*** *and $3 were restructured*

*nonaccrual government insured commercial loans at **September 30, 2018** and December 31, 2017, respectively.*
The following tables provide a rollforward of portfolio nonaccrual loans and leases, by portfolio segment:

TABLE 50: Rollforward of Portfolio Nonaccrual Loans and Leases

For the nine months ended September 30, 2018 ($ in millions)		Commercial	Residential Mortgage	Consumer	Total
Balance, beginning of period	**$**	**306**	**30**	**101**	**437**
Transfers to nonaccrual status		**230**	**27**	**106**	**363**
Transfers to accrual status		**(3)**	**(18)**	**(49)**	**(70)**
Transfers to held for sale		**(25)**	**-**	**-**	**(25)**
Loan paydowns/payoffs		**(135)**	**(6)**	**(24)**	**(165)**
Transfers to OREO		**(2)**	**(8)**	**(5)**	**(15)**
Charge-offs		**(125)**	**(2)**	**(27)**	**(154)**
Draws/other extensions of credit		**32**	**-**	**-**	**32**
Balance, end of period	**$**	**278**	**23**	**102**	**403**

TABLE 51: Rollforward of Portfolio Nonaccrual Loans and Leases

For the nine months ended September 30, 2017 ($ in millions)		Commercial	Residential Mortgage	Consumer	Total
Balance, beginning of period	$	523	34	103	660
Transfers to nonaccrual status		249	38	93	380
Transfers to accrual status		(59)	(21)	(38)	(118)
Transfers to held for sale		(20)	-	-	(20)
Loan paydowns/payoffs		(223)	(8)	(22)	(253)
Transfers to OREO		(2)	(9)	(5)	(16)
Charge-offs		(120)	(3)	(29)	(152)
Draws/other extensions of credit		25	-	-	25
Balance, end of period	$	373	31	102	506

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Troubled Debt Restructurings

If a borrower is experiencing financial difficulty, the Bancorp may consider, in certain circumstances, modifying the terms of their loan to maximize collection of amounts due. Typically, these modifications reduce the loan interest rate, extend the loan term, reduce the accrued interest or in limited circumstances, reduce the principal balance of the loan. These modifications are classified as TDRs.

At the time of modification, the Bancorp maintains certain consumer loan TDRs (including residential mortgage loans, home equity loans, and other consumer loans) on accrual status, provided there is reasonable assurance of repayment and performance according to the modified terms based upon a current, well-documented credit evaluation. Commercial loans modified as part of a TDR are maintained on accrual status provided there is a sustained payment history of six months or greater prior to the modification in accordance with the modified terms and all remaining contractual payments under the modified terms are reasonably assured of collection. TDRs of commercial loans and credit card loans that do not have a sustained payment history of six months or greater in accordance with the modified terms remain on nonaccrual status until a six-month payment history is sustained.

Consumer restructured loans on accrual status totaled $987 million and $927 million at September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, the percent of restructured residential mortgage loans, home equity loans and credit card loans that were past due 30 days or more from their modified terms were 24%, 12% and 38%, respectively.

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

TABLE 52: Accruing and Nonaccruing Portfolio TDRs

		Accruing			
As of September 30, 2018 ($ in millions)	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccruing	Total
Commercial loans[(b)]	$ **80**	**-**	**-**	**180**	**260**
Residential mortgage loans[(a)]	**578**	**49**	**118**	**12**	**757**
Home equity	**208**	**12**	**-**	**16**	**236**
Automobile loans	**5**	**-**	**-**	**1**	**6**
Credit card	**14**	**3**	**-**	**26**	**43**
Total	$ **885**	**64**	**118**	**235**	**1,302**

(a) Information includes advances made pursuant to servicing agreements for GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the VA. As of ***September 30, 2018****, these advances represented* ***$345*** *of current loans,* ***$39*** *of 30-89 days past due loans and* ***$99*** *of 90 days or more past due loans.*

(b) Excludes restructured nonaccrual loans held for sale.

TABLE 53: Accruing and Nonaccruing Portfolio TDRs

As of December 31, 2017 ($ in millions)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or More Past Due	Nonaccruing	Total
Commercial loans[(b)]	$ 249	-	-	150	399
Residential mortgage loans[(a)]	478	52	122	13	665
Home equity	236	12	-	18	266
Automobile loans	8	-	-	1	9
Credit card	16	3	-	26	45
Total	$ 987	67	122	208	1,384

(a) Information includes advances made pursuant to servicing agreements for GNMA mortgage pools whose repayments are insured by the FHA or guaranteed by the VA. As of December 31, 2017, these advances represented $282 of current loans, $40 of 30-89 days past due loans and $108 of 90 days or more past due loans.

(b) Excludes restructured nonaccrual loans held for sale.

Analysis of Net Loan Charge-offs

Net charge-offs were 30 bps and 29 bps of average portfolio loans and leases for the three months ended September 30, 2018 and 2017, respectively, and were 36 bps and 32 bps of average portfolio loans and leases for the nine months ended September 30, 2018 and 2017, respectively. Table 54 provides a summary of credit loss experience and net charge-offs as a percent of average portfolio loans and leases outstanding by loan category.

The ratio of commercial loan and lease net charge-offs to average portfolio commercial loans and leases was 19 bps and 24 bps during the three and nine months ended September 30, 2018, respectively, compared to 21 bps and 22 bps during the three and nine months ended September 30, 2017, respectively.

The ratio of consumer loan net charge-offs to average portfolio consumer loans was 50 bps and 54 bps during the three and nine months ended September 30, 2018, respectively, compared to 43 bps and 48 bps for the three and nine months ended September 30, 2017, respectively. The increases for both the three and nine months ended September 30, 2018 were primarily due to increases in net charge-offs on other consumer loans of $2 million and $9 million, respectively, and increases in net charge-offs on credit card of $1 million and $8 million, respectively, as a result of growth in unsecured loans.

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TABLE 54: Summary of Credit Loss Experience

($ in millions)		For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Losses charged-off:					
Commercial and industrial loans	$	**(36)**	(30)	**(119)**	(102)
Commercial mortgage loans		**-**	(3)	**(5)**	(15)
Commercial leases		**-**	-	**-**	(2)
Residential mortgage loans		**(3)**	(2)	**(10)**	(12)
Home equity		**(6)**	(6)	**(17)**	(24)
Automobile loans		**(15)**	(13)	**(45)**	(42)
Credit card		**(33)**	(23)	**(91)**	(71)
Other consumer loans[(a)]		**(19)**	(8)	**(47)**	(19)
Total losses charged-off	$	**(112)**	(85)	**(334)**	(287)
Recoveries of losses previously charged-off:					
Commercial and industrial loans	$	**8**	3	**17**	23
Commercial mortgage loans		**1**	-	**2**	2
Residential mortgage loans		**1**	3	**4**	7
Home equity		**3**	3	**8**	10
Automobile loans		**6**	5	**17**	16
Credit card		**12**	3	**19**	7
Other consumer loans[(a)]		**9**	-	**20**	1
Total recoveries of losses previously charged-off	$	**40**	17	**87**	66
Net losses charged-off:					
Commercial and industrial loans	$	**(28)**	(27)	**(102)**	(79)
Commercial mortgage loans		**1**	(3)	**(3)**	(13)
Commercial leases		**-**	-	**-**	(2)
Residential mortgage loans		**(2)**	1	**(6)**	(5)
Home equity		**(3)**	(3)	**(9)**	(14)
Automobile loans		**(9)**	(8)	**(28)**	(26)
Credit card		**(21)**	(20)	**(72)**	(64)
Other consumer loans		**(10)**	(8)	**(27)**	(18)
Total net losses charged-off	$	**(72)**	(68)	**(247)**	(221)

Net losses charged-off as a percent of average portfolio loans and leases:

Commercial and industrial loans	**0.26 %**	0.26	**0.32**	0.26
Commercial mortgage loans	**(0.03)**	0.16	**0.05**	0.26
Commercial leases	**-**	0.01	**-**	0.05
Total commercial loans and leases	**0.19 %**	0.21	**0.24**	0.22
Residential mortgage loans	**0.04**	(0.02)	**0.05**	0.05
Home equity	**0.16**	0.18	**0.18**	0.26
Automobile loans	**0.41**	0.35	**0.41**	0.37
Credit card	**3.53**	3.75	**4.29**	4.00
Other consumer loans	**1.94**	2.80	**1.98**	2.66
Total consumer loans	**0.50 %**	0.43	**0.54**	0.48
Total net losses charged-off as a percent of average portfolio loans and leases	**0.30 %**	0.29	**0.36**	0.32

*(a) For the three and nine months ended **September 30, 2018**, the Bancorp recorded **$8** and **$18**, respectively, in both losses charged-off and recoveries of losses charged-off related to customer defaults on point-of-sale loans for which the Bancorp obtained recoveries under third-party credit enhancements.*

Allowance for Credit Losses

The allowance for credit losses is comprised of the ALLL and the reserve for unfunded commitments. The ALLL provides coverage for probable and estimable losses in the loan and lease portfolio. The Bancorp evaluates the ALLL each quarter to determine its adequacy to cover inherent losses. Several factors are taken into consideration in the determination of the overall ALLL, including an unallocated component. These factors include, but are not limited to, the overall risk profile of the loan and lease portfolios, net charge-off experience, the extent of impaired loans and leases, the level of nonaccrual loans and leases, the level of 90 days past due loans and leases and the overall level of the ALLL as a percent of portfolio loans and leases. The Bancorp also considers overall asset quality trends, credit administration and portfolio management practices, risk identification practices, credit policy and underwriting practices, overall portfolio growth, portfolio concentrations and current economic conditions that might impact the portfolio. More information on the ALLL can be found in the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2017.

During the three months ended September 30, 2018, the Bancorp did not substantively change any material aspect of its overall approach in the determination of the ALLL and there have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. In addition to the ALLL, the Bancorp maintains a reserve for unfunded commitments recorded in other liabilities in the Condensed Consolidated Balance Sheets. The methodology used to determine the adequacy of this reserve is similar to the Bancorp s methodology for determining the ALLL. The provision for unfunded commitments is included in other noninterest expense in the Condensed Consolidated Statements of Income.

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The ALLL attributable to the portion of the residential mortgage and consumer loan and lease portfolio that has not been restructured is determined on a pooled basis with the segmentation based on the similarity of credit risk characteristics. Loss factors for consumer loans are developed for each pool based on the trailing twelve month historical loss rate, as adjusted for certain prescriptive loss rate factors and certain qualitative adjustment factors. The prescriptive loss rate factors and qualitative adjustments are designed to reflect risks associated with current conditions and trends which are not believed to be fully reflected in the trailing twelve month historical loss rate. For real estate backed consumer loans, the prescriptive loss rate factors include adjustments for delinquency trends, LTV trends, refreshed FICO score trends and product mix, and the qualitative factors include adjustments for changes in policies or procedures in underwriting, monitoring or collections, economic conditions, portfolio mix, lending and risk management personnel, results of internal audit and quality control reviews, collateral values and geographic concentrations. The Bancorp considers home price index trends in its footprint and the volatility of collateral valuation trends when determining the collateral value qualitative factor.

The Bancorp s determination of the ALLL for commercial loans is sensitive to the risk grades it assigns to these loans. In the event that 10% of commercial loans in each risk category would experience a downgrade of one risk category, the allowance for commercial loans would increase by approximately $161 million at September 30, 2018. In addition, the Bancorp s determination of the ALLL for residential mortgage loans and consumer loans is sensitive to changes in estimated loss rates. In the event that estimated loss rates would increase by 10%, the ALLL for residential mortgage loans and consumer loans would increase by approximately $33 million at September 30, 2018. As several qualitative and quantitative factors are considered in determining the ALLL, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the ALLL. They are intended to provide insights into the impact of adverse changes to risk grades and estimated loss rates and do not imply any expectation of future deterioration in the risk ratings or loss rates. Given current processes employed by the Bancorp, management believes the risk grades and estimated loss rates currently assigned are appropriate.

TABLE 55: Changes in Allowance for Credit Losses

		For the three months ended September 30,		For the nine months ended September 30,	
($ in millions)		**2018**	2017	**2018**	2017
ALLL:					
Balance, beginning of period	$	**1,077**	1,226	**1,196**	1,253
Losses charged-off[(a)]		**(112)**	(85)	**(334)**	(287)
Recoveries of losses previously charged-off[(a)]		**40**	17	**87**	66
Provision for loan and lease losses		**86**	67	**142**	193
Deconsolidation of a VIE[(b)]		**-**	(20)	**-**	(20)
Balance, end of period	$	**1,091**	1,205	**1,091**	1,205

Reserve for unfunded commitments:					
Balance, beginning of period	$	**131**	162	**161**	161
Benefit from the reserve for unfunded commitments		**(2)**	(5)	**(32)**	(4)
Balance, end of period	$	**129**	157	**129**	157

(a) *For the three and nine months ended* ***September 30, 2018****, the Bancorp recorded* ***$8*** *and* ***$18****, respectively, in both losses charged-off and recoveries of losses charged-off related to customer defaults on point-of-sale loans for which the Bancorp obtained recoveries under third-party credit enhancements.*

(b) *Refer to Note 10 of the Notes to Condensed Consolidated Financial Statements for further discussion on the deconsolidation of a VIE.*

Certain inherent but unconfirmed losses are probable within the loan and lease portfolio. The Bancorp s current methodology for determining the level of losses is based on historical loss rates, current credit grades, specific allocation on impaired commercial credits above specified thresholds and restructured loans and other qualitative adjustments. Due to the heavy reliance on realized historical losses and the credit grade rating process, the model-derived estimate of ALLL tends to slightly lag behind the deterioration in the portfolio in a stable or deteriorating credit environment, and tends not to be as responsive when improved conditions have presented themselves. Given these model limitations, the qualitative adjustment factors may be incremental or decremental to the quantitative model results.

An unallocated component of the ALLL is maintained to recognize the imprecision in estimating and measuring loss. The unallocated allowance as a percent of total portfolio loans and leases was 0.12% and 0.13% at September 30, 2018 and December 31, 2017, respectively. The unallocated allowance was 10% of the total allowance at both September 30, 2018 and December 31, 2017.

As shown in Table 56, the ALLL as a percent of portfolio loans and leases was 1.17% and 1.30% at September 30, 2018 and December 31, 2017, respectively. The ALLL was $1.1 billion and $1.2 billion at September 30, 2018 and December 31, 2017, respectively.

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TABLE 56: Attribution of Allowance for Loan and Lease Losses to Portfolio Loans and Leases

As of ($ in millions)		September 30, 2018	December 31, 2017
Attributed ALLL:			
Commercial and industrial loans	$	**533**	651
Commercial mortgage loans		**73**	65
Commercial construction loans		**29**	23
Commercial leases		**21**	14
Residential mortgage loans		**83**	89
Home equity		**37**	46
Automobile loans		**39**	38
Credit card		**136**	117
Other consumer loans		**31**	33
Unallocated		**109**	120
Total ALLL	$	**1,091**	1,196
Portfolio loans and leases:			
Commercial and industrial loans	$	**42,631**	41,170
Commercial mortgage loans		**6,695**	6,604
Commercial construction loans		**4,892**	4,553
Commercial leases		**3,697**	4,068