



**FIFTH THIRD BANCORP  
MARKET RISK DISCLOSURES**

For the quarter ended September 30, 2015

## ***The Market Risk Rule***

In order to better capture the risks inherent in trading positions the Office of the Comptroller of the Currency (OCC), jointly with the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC) issued revised market risk based capital guidelines effective January 1, 2013. With more than \$1 billion in gross market value of trading assets and liabilities, Fifth Third Bancorp (FITB) is subject to the Market Risk Rule (MRR) and operates in compliance with its requirements.

The MRR establishes regulatory capital requirements and sets out certain key market risk measurement and management techniques, including the need for calculating Value-at-Risk (VaR) and Stressed VaR (SVaR) for each covered position, stress testing, back testing and independent market risk management. It requires that market risk on all covered positions be computed on a consistent basis to facilitate the aggregation and management of market risks across all trading businesses. To increase transparency and improve market discipline, quantitative and qualitative disclosures regarding the Market Risk Capital Charge calculation are published on a regular basis.

## ***Covered Positions***

FITB captures and aggregates all covered positions within a VaR framework. For this purpose, covered positions include all positions in the Bank's Trading account. Trading activities are primarily customer-driven and are materially comprised of interest rate derivatives (IRD), foreign exchange contracts (FX), commodity contracts and Fifth Third Securities (FTS) trading inventory. In compliance with the Volcker Rule, Fifth Third is prohibited from engaging in proprietary trading activities. While FITB has some exposure to other types of market risk including FX, commodity, equity and credit risk, interest rate risk is the primary source of market risk for the Trading account.

The derivatives discussed in this section include only those related to transactions with commercial customers, not those the Bank enters into to manage the interest rate or other risks in its balance sheet (non-trading activities). Commercial customers enter into IRD trades with the Bank and FITB typically enters into offsetting trades with approved bank counterparties to reduce or eliminate market risk. In the same way FX and commodity price risk are generally minimal, as trades with customers are most often offset with opposite trades executed with approved bank counterparties. Market risk can result when offsetting trades are not executed at the same time as the customer trades, or when there is a mismatch in the maturity structure. Another risk arises from the non-linear price characteristics of options positions and their sensitivity to the volatility of the underlying rates or prices. FTS originates, underwrites and distributes fixed income securities through its sales and trading staff. Although the typical hold period is very short term, this is our only "long" portfolio and the main driver of VaR and risk-weighted assets (RWA). Inventory primarily consists of corporate and municipal bonds, agencies, mortgage backed securities, treasuries and treasury futures.

A documented, well-enforced program of trading limits prohibits certain potential covered-position exposures and helps reduce model complexity. Market risk limits are set independently but with the concurrence with the lines of business and are reviewed by senior management and the Board of Directors on at least an annual basis. Limits on quantitative risk measures, including VaR, are monitored on a daily basis and reported in dashboards along with limit exceptions, significant positions, and profit and loss attribution.

## ***Valuation***

Trading positions are generally valued on a mark-to-market basis using various third party pricing sources. For the positions that are priced using a model approach, procedures ensure that valuations are consistent with observable market information. Trading positions are subject to independent price verification by Market Risk Management and are reported at fair value with changes reflected in income. For further information on the fair value of certain financial assets and liabilities see Footnote 22 to the Condensed Consolidated Financial Statements in the Bancorp's report on Form 10-Q for the quarter ended September 30, 2015. There have been no material changes to valuation policies, procedures and methodologies.

## Value-at-Risk

VaR is the market risk measurement technique used to estimate the potential future loss on a portfolio that can be expected over a given time horizon at a specified level of certainty or confidence interval. FITB uses Historical VaR methodology, which compares the actual volatility of risk factors such as rates, spreads and prices to the historical sensitivity of those factors. It captures empirical correlations within and across risk categories. FITB addresses all significant price risks within its VaR model, including basis risk as well as directional market risks.

For each trading portfolio, VaR is calculated on a daily basis using a 99% one-tailed confidence level. The 10-day VaR is calculated using the actual 10-day historical changes in risk factors; we do not scale the 1-day VaR to calculate the 10-day VaR because scaling assumes that daily portfolio returns are independent and identically distributed. When this assumption is violated, the square root of time approximate is not appropriate. The model uses a rolling historical observation period of 750 business days and the market data is updated and validated on a daily basis.

## Stressed VaR

FITB uses the same internal VaR models to calculate a stressed VaR-based measure (SVaR), subject to the same confidence level and holding period, but with model inputs calibrated to historical data from a continuous 12-month period that reflects a period of significant financial stress. The SVaR supplements the VaR metric by mitigating the pro-cyclicality of the minimum capital requirements for market risk. The same time frame is used to calculate SVaR for each sub-portfolio and aggregate SVaR must be no less than the aggregate VaR.

The stress period selected is directly linked to the composition and directional basis of the current trading portfolio. FITB reviews the appropriateness of the 12-month stress period on a regular basis, considering changes in trading exposure, product offerings, business model, risk appetite, hedging strategy, etc. Market Risk Management maintains policies and procedures that describe how the stress period is calibrated, including empirical support for the current period.

**TABLE 1: VaR-Based Metrics**

60 Days Ended September 30, 2015 (\$ in thousands)	FTS	FX	Commodity	IRD	Aggregate <sup>3</sup>
Low VaR <sup>1</sup>	244	43	61	0	457
High VaR	1,459	678	264	1	1,685
Mean VaR	502	230	113	0	845
Period End VaR	375	58	108	0	542
Low Stressed VaR	775	38	58	1	992
High Stressed VaR	2,684	1,283	179	1	2,861
Mean Stressed VaR	1,318	478	92	1	1,889
Period End Stressed VaR	1,100	49	94	1	1,244

<sup>1</sup> 99% confidence, 10-day hold period

<sup>2</sup> Because low and high VaR/SVaR may occur on different days for different trading areas, low and high for the aggregate portfolio will not equal the sum of the individual components

**CHART 1: Distribution of Daily 99% Confidence 10-Day Hold VaR Statistics for the Total Trading Portfolio**



### **Specific Risk Measure**

Specific risk is the risk of loss on a position that could result from factors other than broad market movements such as event risk, credit/default risk and idiosyncratic risk. FITB calculates the specific risk charge using the standardized measurement method, which measures specific risk pursuant to fixed risk weights as prescribed by the MRR.

### **Capital Adequacy**

FITB assesses capital adequacy on a regular basis, based on actual and estimated positions in both baseline and stressed scenarios. Multiple risk measures are aggregated to arrive at the total market risk based component of the regulatory capital calculation, or Market Risk – Risk Weighted Assets. For more information on the Bank's regulatory capital calculation, see "Capital Management and Non-GAAP Financial Measures section of Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Bancorp's report on Form 10-Q for the quarter ended September 30, 2015. The following table summarizes the minimum capital requirement and RWA for market risk. Per policy, correlation trading is not allowed and as of September 30, 2015 Fifth Third's covered positions did not contain any on- or off-balance sheet securitization positions as defined by the MRR. As such the calculation does not include incremental or comprehensive risk charges.

**TABLE 2: Market Risk Capital and Risk Weighted Assets**

<i>As of September 30, 2015 (\$ in thousands)</i>	<b>VaR<sup>1</sup></b>	<b>SVaR<sup>2</sup></b>	<b>Specific Risk</b>	<b>Capital Charge</b>	<b>RWA</b>
FTS Inventory	1,520	3,858	1,100	6,478	80,972
FX Contracts	673	1,393	-	2,066	25,829
Commodity Contracts	343	278	-	621	7,762
Commercial Customer IRDs	1	2	-	3	42
<b>Grand Total</b>	<b>2,538</b>	<b>5,531</b>	<b>1,100</b>	<b>9,168</b>	<b>114,604</b>

<sup>1</sup> 10-day hold, 99% confidence regulatory VaR-based Capital Charge

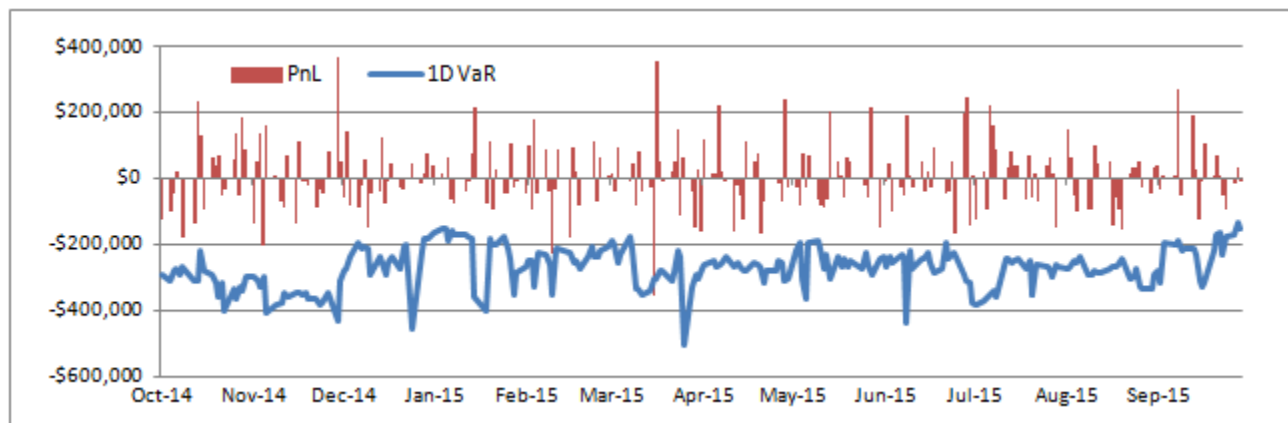
<sup>2</sup> 10-day hold, 99% confidence regulatory Stressed VaR-based Capital Charge

### **Back Testing Results**

FITB back tests the internal VaR models against the subsequent hypothetical or clean P&L on a daily basis using 99% confidence level non-scaled 1-day hold VaR. Clean P&L assumes that end-of-day positions remain constant over the next business day (therefore excluding fees, commissions, reserves, net interest income and intraday trading), and also reflects changes in instrument liquidity and reduced marketability of unique positions. FITB also calculates the p-value of the gain or loss each day, that is the probability of observing a profit less than or a loss greater than the clean P&L calculation based on the internal VaR model. The p-value statistic provides information regarding the appropriateness of the entire P&L distribution and adds an explanatory power to the VaR metric.

Each quarter, FITB identifies the number of exceptions that have occurred over the last 250 business days, where the actual daily loss exceeded the corresponding daily VaR measurement. With a 99% confidence interval, it is expected that actual losses would exceed VaR one out of 100 trading days, or two to three times per year, on average. The following graph shows a comparison of the 99% 1-day VaR calculation to the daily clean P&L for the same positions. Over the past year there has been one backtesting exception for the overall portfolio of covered positions. The exception occurred for the March 17, 2015 VaR calculation as significant appreciation of EUR, GBP and CAD against the US dollar following the Fed announcement on March 18 caused losses on long dollar positions in the FX portfolio.

**CHART 2: Total Trading Portfolio 1-Day Regulatory VaR versus Clean P&L**



### ***Stress Testing***

Since VaR cannot incorporate all possible risk outcomes and can understate the risk associated with severe events, stress testing helps capture sudden and dramatic changes in a portfolio's value given abnormal market conditions. On at least a monthly basis, FITB estimates the maximum loss for each trading portfolio by hypothesizing the portfolio's gain or loss given the recurrence of historical events and the occurrence of forward looking hypothetical scenarios. All covered positions are captured in stress test models. Current positions and risk exposures are combined with the historical and hypothetical factor returns, taking into account historical correlations and volatilities among asset classes and risk factors. The model captures significant non-linearity within covered positions and explicitly considers instrument-level liquidity stresses.

We attempt to identify reasonably feasible but severe market scenarios, considering the composition of covered positions and the nature of business strategies. For example, the Fifth Third Securities portfolio is most vulnerable to rising interest rates and periods of illiquidity. To stress this book we apply various shocks to yield curves and credit spreads. In FX and Commodities we stress spot rates, forward curves and volatility surfaces. FITB uses stress test results to actively monitor market risk in its trading portfolios; results are communicated to senior management and limit violations are escalated. The models assume portfolios remain static; they do not capture how management would adjust positions if sudden, significant changes in market conditions were to occur.

Stress testing for the trading portfolio is also incorporated in firm-wide stress testing. The risk factors are the same in both models but the values used in the firm-wide scenarios are updated to align with internal and regulatory guidance. In the individual trading portfolio stress tests, hypothetical shocks are instantaneous and current positions are held constant. The firm-wide analysis requires a forecast over a longer time horizon and may include certain assumptions about growth and changes in trading strategy.

### ***Model Validation***

It is the policy of FITB to have financial and quantitative models reviewed and validated by internal or external resources that are independent of development, implementation and operation of the model. The Model Risk Management Group (MRMG) evaluates the conceptual framework used by the VaR and the SVaR models, the assumptions underlying the models and the sufficiency and completeness of the risk factors and historical market data used in the models. MRMG also performs independent validation of results when new models are implemented or existing methodology is changed. In addition, at least annually, an internal audit function independent of business line management and risk management assesses the effectiveness of the controls supporting market risk measurement systems, processes and management activities.

### ***Disclosure Attestation***

The Board of Directors and Senior Management are responsible for establishing an effective internal control structure over financial reporting, including disclosures required by the MRR. This disclosure is submitted in conjunction with the quarterly Form 10-Q and annual Form 10-K filings.