



**FIFTH THIRD BANCORP  
MARKET RISK DISCLOSURES**

As of June 30, 2013

## Introduction

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 the Market Risk Capital Rule (MRR) in June 2012. With more than \$1 billion in aggregate trading assets and liabilities, Fifth Third Bancorp (FITB) is subject to the MRR and operates in compliance with the revised risk-based capital guidelines for market risk. Our approach to measuring market risk, including internal models, was most recently approved by our primary U.S. banking regulators in December 2012.

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 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, the MRR requires us to make publicly available certain quantitative and qualitative disclosures on at least a quarterly basis.

## Covered Positions

FITB captures and aggregates all covered positions within a VaR framework. For this purpose, covered positions include all positions in the trading account. Trading activities are primarily customer-driven and are materially comprised of commercial customer interest rate derivatives (IRD), foreign exchange contracts (FX), commodity contracts and Fifth Third Securities (FTS) trading inventory. A documented, well-enforced program of trading limits prohibits certain potential covered-position exposures and helps reduce model complexity.

The following table summarizes the minimum capital requirement and risk-weighted assets (RWA) for market risk as of June 30, 2013, calculated in accordance with the final rule. Correlation trading is not allowed and during the second quarter Fifth Third's covered positions did not contain any securitization positions as defined by the MRR. As such the calculation does not include incremental or comprehensive risk charges.

**TABLE 1: Market Risk Capital and Risk Weighted Assets**

<i>As of June 30, 2013 (\$ 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	\$ 2,002	4,009	1,134	7,145	89,315
FX Contracts	723	1,409	0	2,132	26,644
Commodity Contracts	211	187	0	398	4,969
Commercial Customer IRDs	5	7	0	12	148
Deferred Compensation (mutual funds)	11	30	18	59	738
<b>Grand Total</b>	<b>2,952</b>	<b>5,642</b>	<b>1,152</b>	<b>9,746</b>	<b>121,814</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

## Value-at-Risk

VaR is the market risk measurement technique used to estimate the maximum future loss on a portfolio that can be expected over a given time horizon at a specified level of certainty or probability. 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. We use a rolling historical observation period of 750 business days and market data is updated and validated daily.

## 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. We maintain policies and procedures that describe how the stress period is calibrated, including empirical support for the current period.

**TABLE 2: VaR-Based Metrics**

60 Days Ended June 30, 2013 (\$ in thousands)	FTS	FX	Commodity	IRD	DC	Aggregate <sup>2</sup>
Low VaR <sup>1</sup>	237	184	29	1	4	538
High VaR	2,688	326	132	2	4	3,016
Mean VaR	667	241	70	2	4	984
Period End VaR	611	226	46	2	4	889
Low SVaR	622	373	24	2	10	1,105
High SVaR	5,397	627	112	3	10	5,963
Mean SVaR	1,336	470	62	2	10	1,880
Period End SVaR	1,162	462	40	3	10	1,677

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

<sup>2</sup> Because low and high VaR 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

## Specific Risk Measures

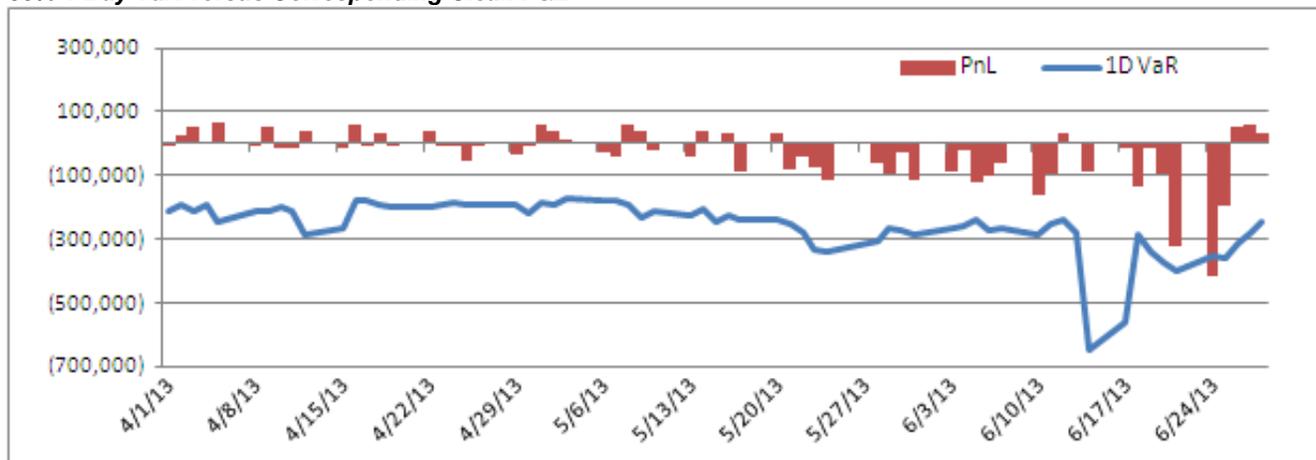
Specific risk is the risk of loss on a position that could result from factors other than broad market movements such as event risk, credit/default risk and idiosyncratic risk. FITB calculates the standard specific risk charge using the standardized measurement method, which measures specific risk pursuant to fixed risk weights as prescribed by the MRR. As such, the Incremental Risk Charge is not applicable. The Comprehensive Risk Measure is also not applicable as policy does not allow any correlation trading.

## Back Testing

FITB back tests our internal VaR models against the subsequent hypothetical or clean P&L on a daily basis using 99% confidence level non-scaled one-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. Since we use 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. During the second quarter of 2013, there was one backtesting exception for the overall portfolio of covered positions. This occurred after comments from the Federal Reserve Board regarding quantitative easing caused a fixed income sell off that ultimately affected Fifth Third Securities holdings.

### 99% 1-Day VaR versus Corresponding Clean P&L



### Stress Testing

Since VaR cannot incorporate all possible risk outcomes, 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 return given the recurrence of historical events or the occurrence of forward looking hypothetical scenarios. We attempt to identify reasonably feasible but severe market scenarios, considering the composition of covered positions and the nature of business strategies.

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. 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.

### 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 Validation Subcommittee (MVS), or its designee, 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. MVS 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 assesses the effectiveness of the controls supporting market risk measurement systems, processes and management activities.