Morningstar Corporate Credit Research Highlights

Volatility Remains Muted in Corporate Bond Market; Yield Curve Continues to Flatten

Morningstar Credit Research
19 June 2017

Contents

Credit Market Insights

- Volatility Remains Muted in Corporate Bond Market; Yield Curve Continues to Flatten

Credit Rating Actions

- Rating affirmations

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
AbbVie **ABBV**	BBB+	BBB+
Shire PLC **SHPG**	BBB-	BBB-
Southern Copper **SCCO**	BBB-	BBB-
Rolls-Royce **RR.**	A-	A-
Air Liquide **AI**	BBB+	BBB+

Recent Notes Published by Credit Analysts

- Fifth Third Issuing 5-year Notes

Credit Market Insights

Volatility Remains Muted in Corporate Bond Market; Yield Curve Continues to Flatten

The average spread of the Morningstar Corporate Bond Index (our proxy for the investment-grade bond market) tightened one basis point to +116; whereas, the BankAmerica Merrill Lynch High Yield Master Index widened 3 basis points to +376. Volatility remained muted as credit spreads have traded in a very narrow range. Over the past four weeks, the average spread in the investment-grade market has only varied by 2 basis points, and in the high yield market, the average spread has only varied by 11 basis points.

Corporate Bond Credit Spreads

Source: Morningstar,Inc., BofA Merrill Lynch Global Indexes. Data as of 06/16/2017.

The main impetus for the widening in the high yield market was the decline in oil prices to $44.70 per barrel, its lowest level since last November, which pushed the credit spread of the energy sector 20 basis points wider last week to +503. This is the first time that the spread of the energy sector has breached +500 since November 2016, when oil had last fallen below $45 per barrel. Year to date, the Morningstar Corporate Bond Index has tightened 12 basis points, and at its current level, the index is significantly tighter than its long-term average of 167 basis points. Since January 2000, the average spread of the index has only been tighter than current level 25% of the time. Similarly, the BankAmerica Merrill Lynch High Yield Master Index has tightened 45 basis points year to date and is 233 basis points tighter than its long-term average of 609 basis points. Since January 2000, the index has registered a lower spread only 15% of the time.

Following the Fed's interest rate hike, Treasury bonds rallied with long-term bond prices outperforming short-term bonds, resulting in a flattening yield curve. While the yield on the 2-year Treasury bond only declined 1 basis point, the yield on the 30-year bond declined 8 basis points. While short-term interest rates remain near their highest levels since November 2008, long-term interest rates remain well below their March highs. While the yield curve has not quite yet flattened to the same levels as last fall, prior to last fall, the last time the yield curve was this flat was in November 2007.

Spread Between 2-year and 10-year Treasury Rates

Source: Federal Reserve Bank of St. Louis. Data as of 6/16/2017.

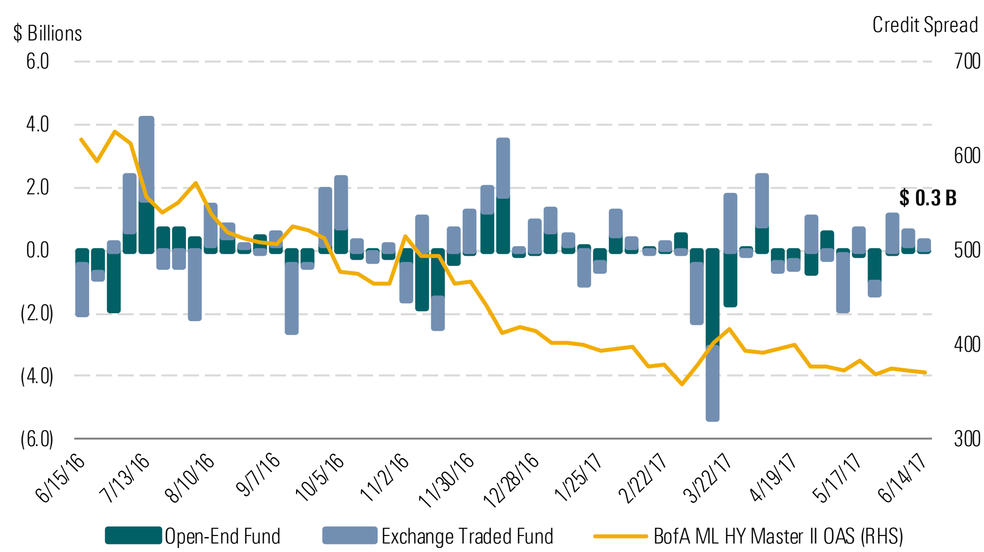
Currently, the market is pricing in low probability that the Fed will hike the federal funds rate again in the short term. The market implied probability that the Federal Reserve will raise the federal funds rate following the September FOMC meeting is only 16%. That probability increases to a 46% chance that the Fed will raise the rate at the December meeting.

Robert Johnson, Morningstar Research Service LLC's Director of Economic Research thinks that the Fed is done for the year and will not hike rates again before 2018. According to his video, "No More Rate Hikes in 2017" uploaded on June 14, Johnson thinks it is more likely that the Fed will initiate its program to begin reducing the size of the Fed's balance sheet as early as the September FOMC meeting. According to Johnson, the Fed's plan will be to halt reinvesting the principal on maturing bonds to the tune of $10 billion a month. Yet, the Fed's goal will be to increase the portfolio roll-off to $50 billion per month, which is an annualized rate of $600 billion. Considering the Fed's balance sheet is well north of $4 trillion and would likely want to keep about $1 trillion of assets on its books, that would equate to a wind down that would occur over multiple years. Part of the reason that Johnson thinks that the Fed won't hike rates again this year is that he is seeing growth slowing in a number of the sectors that have been the key drivers for the economy. While GDP growth in the second quarter will likely outpace economic growth in the first quarter, Johnson reiterated his forecast for real GDP growth for 2017 to range between 1.75% and 2%. The sectors that he specifically highlighted as weakening are aerospace, autos, equipment related to oil production, healthcare, and restaurant sales.

The new issue market was quiet as only a few issuers dared to tip their toe into the capital markets during a week in which the Federal Reserve was expected to hike interest rates. Among the companies we rate, Fifth Third Bancorp (rating: BBB+, stable) sold $700 million fixed rate senior unsecured holding company notes. Our BBB+ credit rating for Fifth Third reflects the company's solid asset quality and loan-loss reserves, partially offset by a relatively higher-risk geographic footprint. Fifth Third is a diversified financial services company with $140 billion in assets as of December. The company operates around 1,200 branches mainly in Ohio, Michigan, and the greater Midwest. In our view, the company has done a good job of improving its credit quality by reducing its nonperforming assets to less than 1% of loans, less than half of its peak in 2009. Loan-loss coverage is solid, with reserves/nonperforming loans more than 186% at year-end. Both measures compare favorably with average levels for regional bank peers of 1% and 120%, respectively. Solid profits, including a 10.1% return on equity during 2016, were inflated by one-time gains from the sale of the company's Vantiv payment processing business.

Fund flows into high yield open end mutual funds and ETFs declined for the third consecutive week, declining to $0.3 billion. Year to date, high yield fund flows remain decidedly negative as there has been a net redemption of $3.9 billion consisting of $4.7 billion withdrawal out of the open-end funds, which has only been partially offset by $0.8 billion of inflows into ETFs.

Estimated Weekly High-Yield Bond Fund Flows and High Yield Credit Spreads



Source: Morningstar , Inc. and BofA Merrill Lynch Global Indexes.

Morningstar Credit Ratings, LLC is a credit rating agency registered with the Securities and Exchange Commission as a nationally recognized statistical rating organization ("NRSRO"). Under its NRSRO registration, Morningstar Credit Ratings issues credit ratings on financial institutions (e.g., banks), corporate issuers, and asset-backed securities. While Morningstar Credit Ratings issues credit ratings on insurance companies, those ratings are not issued under its NRSRO registration. All Morningstar credit ratings and related analysis contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Morningstar credit ratings and related analysis should not be considered without an understanding and review of our methodologies, disclaimers, disclosures, and other important information found at www.morningstarcreditratings.com.

Exhibit 1 Morningstar Credit New Issue Monitor
Week ended June 15, 2017
(000,000s $ unless otherwise noted)

Issuer			Issue				
Name	Ticker	Morningstar Corporate Rating	Size	Coupon	Description	Maturity	Approx Spread to US Treasuries
Apple Inc	AAPL	AA-	$1,000	3.00%	Senior Unsecured	2027	+82
AT&T	T	BBB	GBP 1,000	3.55%	Senior Unsecured	2037	+202(2)
Fifth Third Bancorp	FITB	BBB+	$700	2.60%	Senior Unsecured	2022	+83
Intel Corp	INTC	AA-	$600	2.70%	Senior Unsecured	2024	+202
KFC Holding	YUM	BB(1)	$750	4.75%	Senior Unsecured	2027	+255
Vulcan Materials	VMC	BBB-	$250	L+60	Senior Unsecured	2020	NA
Vulcan Materials	VMC	BBB-	$400	3.90%	Senior Unsecured	2027	+135
Vulcan Materials	VMC	BBB-	$700	4.50%	Senior Unsecured	2047	+165

Source: Advantage Data, company SEC filings
(1) Morningstar's issuer credit rating is assigned at the holding company level.
(2) Spread over UK Treasuries.

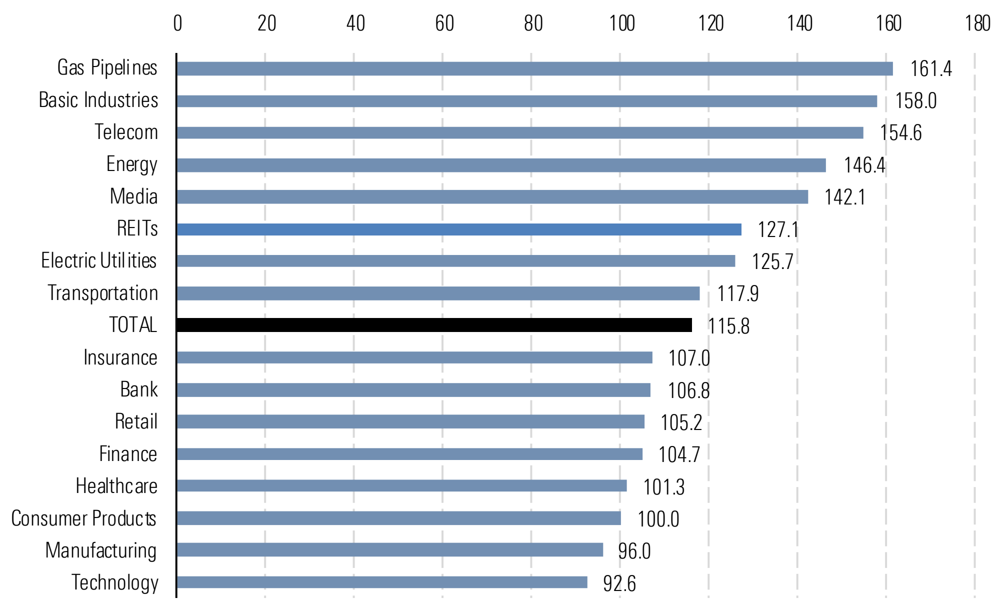
Exhibit 2 Morningstar, Inc. Corporate Bond Index Sector Summary

Sector	Average Rating	Number of Issues	Modified Duration	Spread (bps)	MTD Spread Chg (bps)	YTD Spread Chg (bps)	MTD Total Return (%)	YTD Total Return (%)
TOTAL	**A-**	**4,771**	**7.0**	**116**	**(2)**	**(13)**	**0.58**	**4.12**
FINANCIAL	**A-**	**1,458**	**5.6**	**107**	**(2)**	**(15)**	**0.35**	**3.55**
Bank	A-	888	5.1	107	(1)	(15)	0.29	3.32
Finance	A	273	5.7	105	(2)	(16)	0.37	3.59
Insurance	A	215	7.9	107	(1)	(15)	0.66	4.89
REITs	BBB+	73	5.9	127	(10)	(8)	0.48	3.80
INDUSTRIAL	**A-**	**2,741**	**7.6**	**118**	**(3)**	**(12)**	**0.70**	**4.38**
Basic Industries	BBB+	225	7.6	158	(7)	(22)	0.76	6.08
Consumer Products	A-	311	7.7	100	(2)	(7)	0.69	3.88
Energy	A-	405	7.2	146	(0)	(9)	0.41	4.44
Healthcare	A-	392	7.9	101	(3)	(14)	0.86	4.68
Manufacturing	A-	413	6.4	96	(3)	(13)	0.55	3.37
Media	BBB+	189	8.4	142	(4)	(16)	1.03	5.33
Retail	A-	164	8.1	105	(3)	(3)	0.64	3.72
Technology	A+	303	7.3	93	(3)	(13)	0.66	4.06
Telecom	BBB+	154	8.8	155	(2)	(3)	0.97	4.39
Transportation	BBB+	137	9.1	118	(3)	(15)	0.88	5.09
UTILITY	**BBB+**	**530**	**8.5**	**141**	**(1)**	**(11)**	**0.76**	**4.96**
Electric Utilities	A-	310	9.0	126	(1)	(10)	0.91	4.84
Gas Pipelines	BBB	210	7.7	161	(0)	(15)	0.56	5.15
Rating Bucket								
AAA Bucket		114	8.2	62	(1)	(4)	0.72	3.72
AA Bucket		496	6.0	74	(2)	(9)	0.36	3.00
A Bucket		1,830	6.9	94	(3)	(11)	0.54	3.71
BBB Bucket		2,331	7.1	147	(2)	(17)	0.66	4.79
Term Bucket								
1-4	A-	1,512	2.4	73	(2)	(20)	0.02	1.64
4-7	A-	1,164	4.7	99	(1)	(17)	0.22	3.50
7-10	A-	887	7.1	129	(2)	(8)	0.55	4.63
10PLUS	A-	1,208	13.9	168	(3)	(6)	1.56	7.18

Data as of 06/15/2017

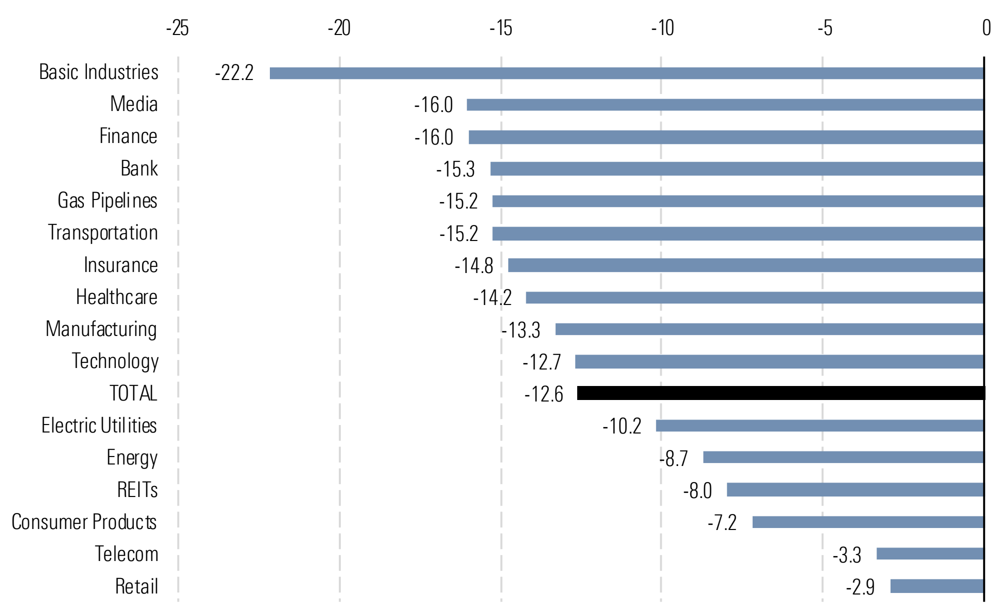
Source: Morningstar, Inc.

Exhibit 3 Morningstar, Inc. Corporate Bond Index Spread by Sector



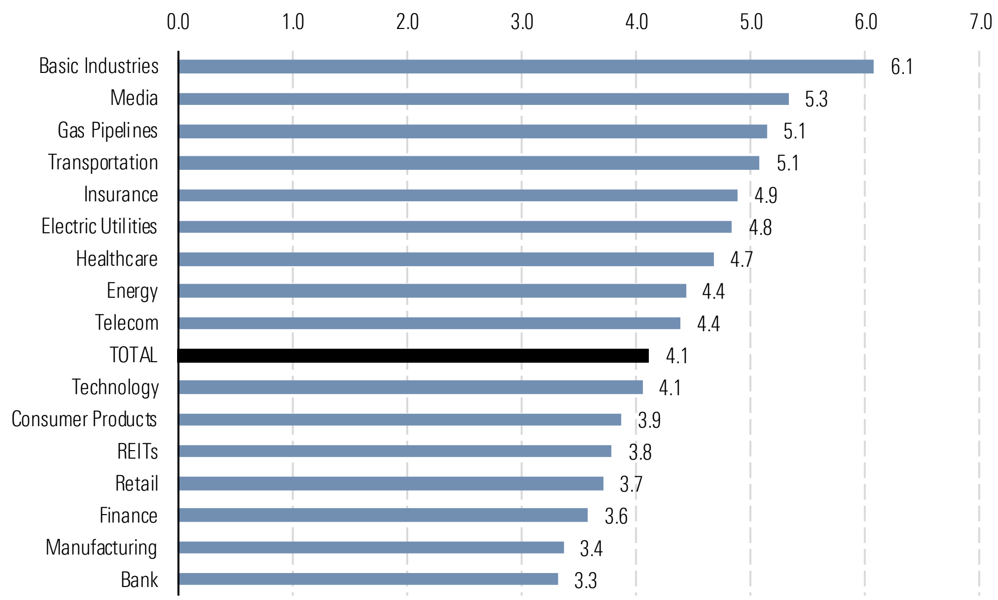
Source: Morningstar, Inc.

Exhibit 4 Morningstar, Inc. Corporate Bond Index YTD Spread Change



Source: Morningstar, Inc.

Exhibit 5 Morningstar, Inc. Corporate Bond Index YTD Return



Source: Morningstar, Inc.

Credit Rating Actions

Rating affirmations

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
AbbVie **ABBV**	BBB+	BBB+
Shire PLC **SHPG**	BBB-	BBB-
Southern Copper **SCCO**	BBB-	BBB-
Rolls-Royce **RR.**	A-	A-
Air Liquide **AI**	BBB+	BBB+

AbbVie's Rating Affirmed at BBB+; Outlook Remains Negative

Morningstar Credit Ratings, LLC is affirming AbbVie Inc.'s BBB+ credit rating and maintaining a negative outlook reflecting stubbornly elevated debt leverage after a series of acquisitions to proactively counter nearing biosimilar competition to autoimmune treatment Humira while generously rewarding shareholders through aggressive share repurchasing and increasing dividends.

Our top concern is the firm's heavy reliance on its best-seller Humira, which represents around 63% of total revenue and weighs heavily on our Business Risk pillar. We expect that the firm's top-selling drug may face biosimilars in 2019, but we think AbbVie's research program bolstered by business development activities has the potential to mitigate the eventual erosion of Humira. Amgen already received FDA approval of its biosimilar Amjevita in September 2016 but may be barred from launching until 2018 at the earliest due to Humira's extensive patent estate. Nonetheless, we estimate that AbbVie may generate low-single-digit sales and EBITDA growth through 2021 compounded annually on the back of its broadened oncology portfolio with relatively new Venclexta and expanding clinical utility of Imbruvica, in addition to potential commercialization of novel drug candidates in immunology, virology, and women's health. Given regulatory and commercialization risk of this promising late-stage pipeline, we will maintain our negative outlook until we are more certain that AbbVie has carved a discernible path to fully offset expected biosimilar erosion.

AbbVie aims to balance capital priorities between generous shareholder rewards and diversifying its product set via internal and external means in order to improve its growth prospects as the Humira patent expiration nears. As a result of active business development in 2015-16, when the firm acquired Pharmacyclics and Stemcentrx for nearly $27 billion, AbbVie's debt balance and gross debt leverage jumped to $37 billion and 3.4 times for the latest 12 months ended in March 2017, versus $15 billion and 2.1 times at the end of 2014. Considering cash and investments totaling $8.4 billion as of March 31, 2017, net leverage stood at 2.6 times for the trailing 12-month period (versus 0.5 times in 2014), which stretches the current rating category. Given its cash on hand together with estimated annual free cash flow averaging more than $8.5 billion through 2021, AbbVie has an opportunity to substantially decrease its debt burden in 2018 when $6 billion in unsecured notes mature. However, we see AbbVie refinancing the majority of the maturing debt as it prioritizes shareholder returns over debt reduction, which tamps down our Cash Flow Cushion and Solvency Score pillars. Accordingly, we expect deleveraging to stem mainly from operational improvement that leads gross leverage and net leverage to hover at or above

2.5 times and 2.0 times, respectively, in 2018-21 as rising dividend payments and share repurchases consume cash flows that could otherwise be directed to debt repayment.

Management's ability to reduce its significant reliance on Humira while refocusing capital deployment to debt reduction could help improve our Business Risk and Cash Flow Cushion pillars enough to stabilize the rating outlook and potentially create uplift to the current rating. On the other hand, in the case of a return of aggressive business development or substantial share repurchasing over the next year or so, such that the Cash Flow Cushion and Solvency Score pillars deteriorate, a downgrade may follow.

Shire's BBB- Rating Affirmed; Outlook Changed to Positive From Stable

Morningstar Credit Ratings, LLC is affirming Shire PLC's BBB- credit rating, reflecting the firm's broad product portfolio of specialty and rare-disease treatments, strong operating performance despite potential disruption from the integration of Baxalta, and successful capture of synergies after completing the Baxalta acquisition. We are also revising our rating outlook to positive from stable as the firm has made meaningful progress in reducing acquisition debt to reach its leverage target.

Shire has transformed itself since 2014 into a top-tier rare-disease drug developer through aggressive business development activity. While Shire's acquisitive posture weighs on our Business Risk, the diversification provided by new sources of growth helps offset the negative impact to the pillar. Nearly one year after the acquisition of Baxalta, we have not seen any hiccups in the integration of the largest acquisition in Shire's history. This supports our view that the firm may achieve cost synergies of at least $700 million by the end of the third year after the purchase, which may help to expand adjusted EBITDA margin toward the mid-40s in the long term. We are encouraged to see Shire's research efforts progressing undisturbed with its next-generation ADHD medicine (SHP465) potentially achieving marketing approval in the U.S. by the end of June and the regulatory applications for its novel drug candidate for hereditary angioedema (lanadelumab) possibly filed in late 2017 or early 2018. Sustained growth of the Baxalta portfolio along with new product launches may support revenue growth in the low-double-digits compounded annually through 2021 with cost savings driving EBITDA up in the high-double-digits over the same period, in our estimation.

Shire's debt load remains historically high following heavy acquisition activity since 2014 that included the $32 billion purchase of Baxalta in June 2016. At March 31, the firm owed $22.5 billion in debt or gross debt/EBITDA of 3.9 times on a pro forma basis, which is down from more than 5 times at the close of the Baxalta transaction, but up from nil in 2013. With a modest cash balance of $369 million on March 31, we see pro forma net leverage for the trailing 12 months at 3.9 times, as well. We remain skeptical that Shire can attain its aggressive net leverage goal of 2-3 times at the end of 2017, but we are confident that this target can be achieved in 2018 through a combination of debt reduction and sustained operational performance. Improvement of this credit metric would benefit our Cash Flow Cushion and Solvency Score pillars and contribute to positive ratings momentum. Our view is supported by free cash flow of nearly $8 billion in 2017-18 in total by our estimates, which is plenty to match coming long-term debt maturities of around $4.8 billion through 2018, consisting of $1.6 billion in term loans due in 2017 (after a $1 billion repayment in the first quarter), and $3.2 billion due in 2018 ($2.4 billion in term loans and $0.8 billion in Baxalta debt). Our top concern rests on the possibility of a significant uptick in acquisition activity that could jeopardize debt reduction efforts through 2018. As Shire deleverages in the next few years, we expect it to keep shareholder returns centered on a modest dividend in order to maintain financial flexibility. Once Shire reaches its leverage target, we would not be surprised to see it announce a share repurchase program to offset dilution created by significant equity used for the Baxalta purchase.

Achievement of Shire’s leverage goal as planned in 2017, while not anticipated, could strengthen our Cash Flow Cushion and Solvency Score pillars enough for a rating upgrade. Though our positive outlook reflects the likelihood that the company reaches its goal in 2018, we would also need to see sustained revenue and earnings strength to prompt an upgrade to the rating. Other the other hand, if there is a return of shareholder-friendly actions, mainly share repurchases, or aggressive acquisition activities before the company attains its net leverage goal, such that our Cash Flow Cushion and Solvency Score pillars deteriorate, a reversion of the rating outlook to stable may be warranted.

Southern Copper's Rating Affirmed at BBB-; Outlook Stable
Morningstar Credit Ratings, LLC is affirming the credit rating of Southern Copper Corporation at BBB- and maintaining its rating outlook at stable.

The affirmation incorporates the company’s large reserve base, its low operating costs, and its moderately leveraged balance sheet. Southern Copper is the largest copper miner globally based on reserves, with approximately 71.4 million metric tons, and is the fifth-largest copper producer in the world. The company has among the lowest cash operating costs of major copper producers at $0.95 per pound net of by-products. While Southern Copper has the world’s largest copper reserve base and very low operating costs, we do not view the company having a sustainable competitive advantage as it is still a price taker in a competitive commodities industry. Nevertheless, these traits are positive for its credit profile. Southern Copper has approximately $6 billion in balance sheet debt as of March 31, and its debt/latest 12-months adjusted EBITDA ending March 31 was 2.4 times, which is down from the 2.7 times at year-end 2016. The company’s credit rating reflects its high Business Risk, its moderate risk profile for its Cash Flow Cushion and Distance to Default and its low risk profile for its Solvency Score. Its Business Risk is negatively affected by a combination of product concentration and industry cyclicality, while its Cash Flow Cushion benefits from a long debt-maturity schedule and expectations of stable copper pricing going forward. Southern Copper’s Solvency Score reflects good projected returns on invested capital and strong interest coverage.

As mentioned above, the company has a long-dated debt maturity profile. Its nearest maturity is $400 million due in 2020, and nearly 80% of the company’s senior notes are due in 2035 or after. Liquidity is provided by approximately $700 million of cash on hand as of March 31 and operating cash flow.

Going forward, we expect the company to be free cash flow positive and that debt/ EBITDA will be less than 2.5 times. Our expectations are based on copper prices of approximately $2.50 per pound throughout our five-year forecast horizon. We also expect the company's dividend payments to be funded out of free cash flow.

Our stable outlook reflects little likelihood of a rating change in the near term. However, the rating could be upgraded in the longer term if the company's Cash Flow Cushion or Business Risk improves, which would probably result from higher, sustainable copper pricing. On the other hand, the rating could be downgraded if the company's Cash Flow Cushion or Business Risk deteriorates, likely a result of materially lower copper prices or if the company leverages up its capital structure.

Rolls-Royce's Rating Affirmed at A-, but Negative Outlook Retained

Morningstar Credit Ratings, LLC is affirming our corporate credit rating on Rolls-Royce Holdings PLC at A-. Rolls-Royce's financial health has stabilized since our July 2016 one-notch downgrade, as the firm tracked ahead of schedule on its cost-savings transformation program and delivered better-than-expected 2016 free cash flow. However, the January 2017 GBP 671 million bribery settlement puts further strain its financial position. As such, we maintain a negative outlook, as Rolls-Royce's credit profile is perilously close to downgrade.

Our A- credit rating and negative outlook on Rolls-Royce blend the firm's solid competitive position with the cumulative effect that earnings related to the oil and gas sector (approximately 10% of sales) and weakness in its civil aerospace segment (51% of sales) have had on its credit profile. Rolls-Royce's strong brand name and product switching costs have enabled the firm to garner a narrow economic moat assessment from Morningstar's Equity Research group, helping to boost its Business Risk pillar score. The firm has historically monetized its competitive position into strong returns on invested capital while its net-cash position produced solid interest coverage and liquidity metrics. However, the weakness in offshore oil and gas activity, increased R&D spending, and the bribery settlement hindered its 2016 financial results. While Rolls-Royce still eked out modest free cash flow in 2016, despite the unfavorable mix shift in its civil aerospace, it is no longer in a net-cash position. Collectively, these factors weigh on its near-term Solvency Score. Rolls-Royce faces meaningful debt maturities of GBP 172 million in 2017, GBP 744 million in 2019, GBP 413 million due in 2020, and GBP 692 million in 2021. The firm settled the bribery investigation in early 2017 and agreed to pay GBP 671 million spread out over the next five years. Combined, these factors explain its middling Cash Flow Cushion score. We forecast a steady improvement in EBITDA including GBP 150 million to GBP 200 million of cost-cutting efforts driven by a reduction in staffing levels that should help the leverage improve to below 2.0 times by 2020, albeit above historical levels.

Despite Rolls-Royce's progress, we maintain a negative outlook on its credit rating, as we harbor modest skepticism about the sustainability of these gains in light of a challenging end market for twin-aisle aircraft. Moreover, although the firm beat its 2016 cash flow guidance, the absolute amount of GBP 100 million is an insufficient level to meet its obligations over the coming years. Should the firm's profitability remain depressed, then we would expect a constrained Solvency Score would result in a ratings downgrade. Conversely, should Rolls prove more adept in restoring profitability and reducing leverage, then we could foresee a possible ratings upgrade.

Air Liquide’s Rating Affirmed at BBB+ and Outlook Remains at Stable

Morningstar Credit Ratings, LLC is affirming our corporate credit rating on Air Liquide SA at BBB+. Our credit rating still reflects Air Liquide’s strong competitive advantages offset by elevated leverage from the Airgas acquisition. We expect that our rating will remain at the current level over the next few years, resulting in a stable outlook.

Air Liquide's Business Risk pillar benefits from the narrow economic moat assigned by Morningstar's Equity Research Group due to the high customer switching costs embedded in the industrial gas business mode. An on-site customer typically signs a 10- to 15-year contract—renewal rates hover above 90%—that index costs for inflation. Typically, a geographic region with a 250-mile radius can accommodate only one on-site plant, enabling a firm like Air Liquide to create regional density that it can translate into incremental opportunities via two additional supply methods—merchant and packaged gas. The addition of Airgas’ leading packaged gas business transforms Air Liquide into a North American powerhouse. The Business Risk pillar also benefits from Air Liquide’s large revenue size and medium uncertainty assessment. Air Liquide has monetized its strong competitive position into impressive returns on invested capital figures excluding goodwill. However, the added debt and invested capital related to the Airgas acquisition weigh on its return on invested capital metric including goodwill while depressing its interest coverage and elevating its total liability to total asset ratio. Collectively, these factors constrain its Solvency Score. We project that Air Liquide will generate approximately EUR 2.5 billion in annual free cash flow over the next five years, but the firm’s meaningful maturity schedule and sizable dividend affect its Cash Flow Cushion score.

We’ve assigned Air Liquide a stable outlook. We think it will take approximately three years before Air Liquide can redeem roughly EUR 2.8 billion in debt, which combined with EBITDA growth and $300 million in Airgas synergies should enable leverage to taper down to pre-deal levels of around 2.0 times. Should the firm deleverage faster than expected, then we could foresee a possible upgrade due to faster improvement in both the Solvency Score and Cash Flow Cushion. Conversely, should EBITDA growth fail to meet our projections, then we suspect leverage will remain elevated. We believe that the higher debt levels would pressure the Cash Flow Cushion score while preventing the Solvency Score from improving, resulting in a possible downgrade.

Recent Notes Published by Credit Analysts

Fifth Third Issuing 5-year Notes

Market News and Data:

Fifth Third Bancorp (rating: BBB+, stable) is in the market with an offering of benchmark-sized 5-year fixed rate senior unsecured holding company notes. Proceeds of the notes are for general corporate purposes. According to pricing service Advantage Data, bonds with similar maturities for Fifth Third and key comparables are indicated over the nearest Treasury as follows:

Fifth Third Bancorp (rating: BBB+, stable) 2.875% notes due 2020 at +72 basis points;
BB&T Corp (rating: A-, stable) 2.75% notes due 2022 at +65 basis points;
PNC Funding Corp. (rating: A-, stable) 3.30% notes due 2022 at +70 basis points;
KeyCorp (rating: BBB+, stable) 5.10% notes due 2021 at +79 basis points;
Huntington Bancshares (rating: BBB+, stable) 2.30% notes due 2022 at +95 basis points; and
Regions Financial Corp. (rating: BBB, stable) 3.20% notes due 2021 at +91 basis points.

MCR Credit Risk Assessment:

Our BBB+ credit rating for Fifth Third reflects the company's solid asset quality and loan-loss reserves, partially offset by a relatively higher-risk geographic footprint. Fifth Third is a diversified financial services company with $140 billion in assets as of December. The company operates around 1,200 branches mainly in Ohio, Michigan, and the greater Midwest. Its four business segments are commercial banking, responsible for about 64.5% of net income in 2016; branch banking, 28%; investment advisory, 6%; and consumer lending and other areas, 1.5%. The company has done a good job of improving its credit quality by reducing its nonperforming assets to less than 1% of loans, less than half of its peak in 2009. Loan-loss coverage is solid, with reserves/nonperforming loans more than 186% at year-end. Both measures compare favorably with average levels for regional bank peers of 1% and 120%, respectively. Solid profits, including a 10.1% return on equity during 2016, were inflated by one-time gains from the sale of the company’s Vantiv payment processing business. We expect future profitability to decrease to around 9% during the next two to three years due in part to a narrower business model. This credit negative is offset by above-average capital levels, including a 9.2% tangible common equity ratio and a 10.8% common equity Tier 1 ratio, both of which compare favorably with regional banking peers.

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