

FIFTH THIRD BANCORP
Form 10-Q
May 10, 2012
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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 March 31, 2012

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

Ohio

31-0854434

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(State or other jurisdiction) (I.R.S. Employer
of incorporation or organization) Fifth Third Center 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 920,056,340 shares of the Registrant's common stock, without par value, outstanding as of March 31, 2012.

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FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about Fifth Third Bancorp and/or the company as combined acquired entities 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, that involve inherent risks and uncertainties. This report may contain certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Fifth Third Bancorp and/or the combined company including statements preceded by, followed by or that include the words or phrases such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other words or phrases such as believes, plans, trend, objective, continue, remain, or similar expressions, or future or conditional verbs such as would, should, could, might, can, or similar verbs. 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) general economic conditions and weakening in the economy, specifically the real estate market, either nationally or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, are less favorable than expected; (2) deteriorating credit quality; (3) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (4) changes in the interest rate environment reduce interest margins; (5) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (6) Fifth Third's ability to maintain required capital levels and adequate sources of funding and liquidity; (7) maintaining

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capital requirements may limit Fifth Third's operations and potential growth; (8) changes and trends in capital markets; (9) problems encountered by larger or similar financial institutions may adversely affect the banking industry and/or Fifth Third; (10) competitive pressures among depository institutions increase significantly; (11) effects of critical accounting policies and judgments; (12) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (13) legislative or regulatory changes or actions, or significant litigation, adversely affect Fifth Third, one or more acquired entities and/or the combined company or the businesses in which Fifth Third, one or more acquired entities and/or the combined company are engaged, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); (14) ability to maintain favorable ratings from rating agencies; (15) fluctuation of Fifth Third's stock price; (16) ability to attract and retain key personnel; (17) ability to receive dividends from its subsidiaries; (18) potentially dilutive effect of future acquisitions on current shareholders' ownership of Fifth Third; (19) effects of accounting or financial results of one or more acquired entities; (20) difficulties from the separation of Vantiv Holding, LLC from Fifth Third; (21) loss of income from any sale or potential sale of businesses that could have an adverse effect on Fifth Third's earnings and future growth; (22) ability to secure confidential information through the use of computer systems and telecommunications networks; and (23) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity.

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Glossary of Terms

Fifth Third Bancorp provides the following list of acronyms as a tool for the reader. The acronyms identified below are used in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Condensed Consolidated Financial Statements and in the Notes to Condensed Consolidated Financial Statements.

ALCO: Asset Liability Management Committee	GSE: Government Sponsored Enterprise
ALLL: Allowance for Loan and Lease Losses	HFS: Held for Sale
ARM: Adjustable Rate Mortgage	IFRS: International Financial Reporting Standards
ATM: Automated Teller Machine	IPO: Initial Public Offering
BOLI: Bank Owned Life Insurance	IRC: Internal Revenue Code
bp: Basis point(s)	IRLC: Interest Rate Lock Commitment
CCAR: Comprehensive Capital Analysis and Review	IRS: Internal Revenue Service
CDC: Fifth Third Community Development Corporation	LIBOR: London InterBank Offered Rate
CFPB: United States Consumer Financial Protection Bureau	LLC: Limited Liability Company
C&I: Commercial and Industrial	LTV: Loan-to-Value
DCF: Discounted Cash Flow	MD&A: Management's Discussion and Analysis of Financial Condition and Results of Operations
DDAs: Demand Deposit Accounts	MSR: Mortgage Servicing Right
ERISA: Employee Retirement Income Security Act	NII: Net Interest Income
ERM: Enterprise Risk Management	NM: Not Meaningful
ERMC: Enterprise Risk Management Committee	NYSE: New York Stock Exchange
EVE: Economic Value of Equity	OCI: Other Comprehensive Income
FASB: Financial Accounting Standards Board	OREO: Other Real Estate Owned
FDIC: Federal Deposit Insurance Corporation	OTTI: Other-Than-Temporary Impairment
FHLB: Federal Home Loan Bank	PMI: Private Mortgage Insurance
FHLMC: Federal Home Loan Mortgage Corporation	SEC: United States Securities and Exchange Commission
FICO: Fair Isaac Corporation (credit rating)	TARP: Troubled Asset Relief Program

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FNMA: Federal National Mortgage Association

TBA: To Be Announced

FRB: Federal Reserve Bank

TDR: Troubled Debt Restructuring

FTAM: Fifth Third Asset Management, Inc.

U.S. GAAP: Accounting principles generally accepted in the United States of America

FTE: Fully Taxable Equivalent

VIE: Variable Interest Entity

FTP: Funds Transfer Pricing

VRDN: Variable Rate Demand Note

FTS: Fifth Third Securities

GNMA: Government National Mortgage Association

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2)**

The following is MD&A 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.

TABLE 1: Selected Financial Data

(\$ in millions, except for per share data)	For the three months ended March 31,		% Change
	2012	2011	
Income Statement Data			
Net interest income ^(a)	\$ 903	884	2
Noninterest income	769	584	32
Total revenue ^(a)	1,672	1,468	14
Provision for loan and lease losses	91	168	(46)
Noninterest expense	973	918	6
Net income attributable to Bancorp	430	265	62
Net income available to common shareholders	421	88	377
Common Share Data			
Earnings per share, basic	\$ 0.46	0.10	360
Earnings per share, diluted	0.45	0.10	350
Cash dividends per common share	0.08	0.06	33
Book value per share	14.30	12.80	12
Market value per share	14.04	13.89	1
Financial Ratios (%)			
Return on assets	1.49%	0.97	54
Return on average common equity	13.1	3.1	323
Dividend payout ratio	17.4	60.0	(71)
Average equity as a percent of average assets	11.49	11.77	(2)
Tangible common equity ^(b)	9.02	8.39	8
Net interest margin ^(a)	3.61	3.71	(3)
Efficiency ^(a)	58.3	62.5	(7)
Credit Quality			
Net losses charged off	\$ 220	367	(40)
Net losses charged off as a percent of average loans and leases	1.08%	1.92	(44)
ALLL as a percent of loans and leases	2.59	3.62	(28)
Allowance for credit losses as a percent of loans and leases ^(c)	2.81	3.89	(28)
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned ^(d)	2.03	2.73	(26)
Average Balances			
Loans and leases, including held for sale	\$ 83,757	79,379	6
Total securities and other short-term investments	16,735	17,290	(3)
Total assets	116,325	110,844	5
Transaction deposits ^(e)	77,135	70,161	10
Core deposits ^(f)	81,686	77,524	5
Wholesale funding ^(g)	16,596	16,430	1
Bancorp shareholders' equity	13,366	13,052	2

Regulatory Capital Ratios (%)			
Tier I capital	12.20%	12.20	
Total risk-based capital	16.07	16.27	(1)
Tier I leverage	11.31	11.21	1
Tier I common equity ^(b)	9.64	8.99	7

- (a) Amounts presented on an FTE basis. The FTE adjustment was \$5 for the three months ended **March 31, 2012** and 2011.
- (b) The tangible common equity and Tier I common equity ratios are non-GAAP measures. For further information, see the Non-GAAP Financial Measures section of the MD&A.
- (c) The allowance for credit losses is the sum of the ALLL and the reserve for unfunded commitments.
- (d) Excludes nonaccrual loans held for sale.
- (e) Includes demand, interest checking, savings, money market and foreign office deposits.
- (f) Includes transaction deposits plus other time deposits.
- (g) Includes certificates \$100,000 and over, other deposits, federal funds purchased, other short-term borrowings and long-term debt.

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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 March 31, 2012, the Bancorp had \$117 billion in assets, operated 15 affiliates with 1,315 full-service Banking Centers, including 105 Bank Mart® locations open seven days a week inside select grocery stores, and 2,404 ATMs in 12 states throughout the Midwestern and Southeastern regions of the United States. The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Investment Advisors. The Bancorp also has an approximate 39% interest in Vantiv Holding, LLC, formerly Fifth Third Processing Solutions, LLC.

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. Each of these items could have an impact on the Bancorp's financial condition, results of operations and cash flows. In addition, see the Glossary of Terms in this report for a list of acronyms included as a tool for the reader of this quarterly report on Form 10-Q. The acronyms identified therein are used throughout this MD&A, as well as the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements.

The Bancorp believes that banking is first and foremost a relationship business where the strength of the competition and challenges for growth can vary in every market. The Bancorp believes its affiliate operating model provides a competitive advantage by emphasizing individual relationships. Through its affiliate operating model, individual managers at all levels within the affiliates are given the opportunity to tailor financial solutions for their customers.

The Bancorp's revenues are dependent on both net interest income and noninterest income. For the three months ended March 31, 2012, net interest income, on an FTE basis, and noninterest income provided 54% and 46% of total revenue, respectively. The Bancorp derives the majority of its revenues within the United States from customers domiciled in the United States. Revenue from foreign countries and external customers domiciled in foreign countries is immaterial to the Bancorp's Condensed Consolidated Financial Statements. 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, 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, 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 losses on its loan and lease portfolio, as a result of changing expected cash flows caused by loan defaults and inadequate collateral due to a weakened economy within the Bancorp's footprint.

Net interest income, net interest margin 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.

Noninterest income is derived primarily from mortgage banking net revenue, service charges on deposits, corporate banking revenue, investment advisory revenue and card and processing revenue. Noninterest expense is primarily driven by personnel costs, occupancy expenses, costs incurred in the origination of loans and leases and insurance premiums paid to the FDIC.

Senior Notes Offerings

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On March 7, 2012, the Bancorp issued \$500 million of Senior Notes to third party investors, and entered into a Supplemental Indenture with Wilmington Trust Company, as Trustee, which modified the existing Indenture for Senior Debt Securities dated as of April 30, 2008. The Supplemental Indenture and the Indenture define the rights of the Senior Notes, which Senior Notes are represented by a Global Security dated as of March 7, 2012. The Senior Notes bear a fixed rate of interest of 3.50% per annum. The notes are unsecured, senior obligations of the Bancorp. Payment of the full principal amount of the notes will be due upon maturity on March 15, 2022. The notes will not be subject to the redemption at the Bancorp's option at any time prior to maturity.

CCAR Results

On March 13, 2012, the Bancorp announced the results of its capital plan submitted to the FRB as part of the 2012 CCAR. The FRB indicated to the Bancorp that it did not object to the following capital actions: a continuation of its quarterly common dividend of \$0.08 per share; the redemption of up to \$1.4 billion in certain trust preferred securities; and the repurchase of common shares in an amount equal to any after-tax gains attributable to the Vantiv, Inc. IPO.

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

The FRB indicated to the Bancorp that it did object to other elements of its capital plan, including increases in its quarterly common dividend and the initiation of common share repurchases other than those described in the paragraph above. Fifth Third intends to resubmit its capital plan to the FRB as soon as practicable in order to address the reasons for the FRB's objections.

Vantiv, Inc. IPO

On June 30, 2009, the Bancorp completed the sale of a majority interest in its processing business to Advent International. As part of this transaction, the processing business was contributed into a partnership now known as Vantiv Holding, LLC. Vantiv, Inc., formed by Advent and owned by certain funds managed by Advent, acquired an approximate 51% interest in Vantiv Holding, LLC for cash and warrants. The Bancorp retained the remaining approximate 49% interest in Vantiv Holding.

During the first quarter of 2012, Vantiv, Inc. priced an IPO of its shares and contributed the net proceeds to Vantiv Holding, LLC for additional ownership interests. As a result of this offering, the Bancorp's ownership of Vantiv Holding, LLC was reduced to approximately 39% and will continue to be accounted for as an equity method investment in the Condensed Consolidated Financial Statements. The impact of the capital contributions to Vantiv Holding, LLC and the resulting dilution in the Bancorp's interest resulted in a pre-tax gain of \$115 million (\$75 million after-tax) by the Bancorp.

As of March 31, 2012, the Bancorp continued to hold approximately 84 million units of Vantiv Holding, LLC and a warrant to purchase approximately 20 million incremental Vantiv Holding, LLC non-voting units, both of which may be exchanged for common stock of Vantiv, Inc. on a one for one basis or at Vantiv, Inc.'s option for cash. In addition, the Bancorp holds approximately 84 million Class B common shares of Vantiv, Inc. The Class B common shares give the Bancorp voting rights, but no economic interest in Vantiv, Inc. The voting rights attributable to the Class B common shares are limited to 18.5% of the voting power in Vantiv, Inc. at any time other than in connection with a stockholder vote with respect to a change in control in Vantiv, Inc. These securities are subject to certain terms and restrictions.

Accelerated Share Repurchase

On April 23, 2012, the Bancorp entered into an accelerated share repurchase transaction with a counterparty pursuant to which the Bancorp will purchase \$75 million of its outstanding common stock. The Bancorp will repurchase the shares as part of its previously announced share repurchase program. Under the Master Confirmation, supplemented by a Supplemental Confirmation (together, the Repurchase Agreement) between the Bancorp and the counterparty, the Bancorp will pay \$75 million and receive a substantial majority of the shares underlying the Repurchase Agreement on April 26, 2012. The actual number of shares of the Bancorp's common stock to be delivered to the counterparty will be 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 Agreement. At settlement, the counterparty may be obligated to deliver additional shares of the Bancorp's common stock to the Bancorp, or the Bancorp may be obligated to make a delivery of common stock, or a payment of cash at the Bancorp's election, to the counterparty. The Bancorp expects the settlement of the transaction to occur on or before July 26, 2012.

Legislative Developments

On July 21, 2010, the Dodd-Frank Act was signed into law. This act implements changes to the financial services industry and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The legislation establishes a CFPB responsible for implementing and enforcing compliance with consumer financial laws, changes the methodology for determining deposit insurance assessments, gives the FRB the ability to regulate and limit interchange rates charged to merchants for the use of debit cards, enacts new limitations on proprietary trading, broadens the scope of derivative instruments subject to regulation, requires on-going stress tests and the submission of annual capital plans for certain organizations and requires changes to regulatory capital ratios. This act also calls for federal regulatory agencies to conduct multiple studies over the next several years in order to implement its provisions.

The Bancorp was impacted by a number of the components of the Dodd-Frank Act which were implemented during 2011. The CFPB began operations on July 21, 2011 and holds primary responsibility for regulating consumer protection by enforcing existing consumer laws, writing new consumer legislation, conducting bank examinations, monitoring and reporting on markets, as well as collecting and tracking consumer complaints. The FRB final rule implementing the Dodd-Frank Act's Durbin Amendment, which limits debit card interchange fees, was issued on

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July 21, 2011 for transactions occurring after September 30, 2011. The final rule established a cap on the fees banks with more than \$10 billion in assets can charge merchants for debit card transactions. The fee was set at \$0.21 per transaction plus an additional 5 bp of the transaction amount and \$0.01 to cover fraud losses. The FRB repealed Regulation Q as mandated by the Dodd-Frank Act on July 21, 2011. Regulation Q was implemented as part of the Glass-Steagall Act in the 1930 s and provided a prohibition against the payment of interest on demand deposits. While the total impact of the Dodd-Frank Act on the Bancorp is not currently known, the impact is expected to be substantial and may have an adverse impact on the Bancorp s financial performance and growth opportunities.

Earnings Summary

The Bancorp s net income available to common shareholders for the three months ended March 31, 2012 was \$421 million, or \$0.45 per diluted share, which was net of \$9 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the quarter ended March 31, 2011 was \$88 million, or \$0.10 per diluted share, which was net of \$177 million in preferred stock dividends. The preferred stock dividends during the first quarter of 2011 included \$153 million in discount accretion resulting from the Bancorp s repurchase of Series F preferred stock.

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

Net interest income was \$903 million for the quarter ended March 31, 2012 compared to \$884 million in the first quarter of 2011. Net interest income in the first quarter of 2012 was positively impacted by a \$3.8 billion increase in average interest earning assets, a 23 bp decrease in the average rate paid on interest bearing liabilities compared to the first quarter of 2011 and a mix shift to lower cost deposit products. These effects were partially offset by a 29 bp decrease in the average yield on interest earning assets. Net interest margin was 3.61% and 3.71% for the three months ended March 31, 2012 and 2011, respectively.

Noninterest income increased \$185 million, or 32%, in the first quarter of 2012 compared to the same period in 2011, primarily as the result of the previously mentioned gain from the Vantiv, Inc. IPO and a \$102 million increase in mortgage banking net revenue resulting from an increase in origination fees and gains on loan sales. These impacts were partially offset by a \$21 million decrease in card and processing revenue as a result of the implementation of the Durbin Amendment.

Noninterest expense increased \$55 million, or six percent, in the first quarter of 2012 compared to the same period in 2011, primarily due to a \$63 million increase in total personnel costs (salaries, wages and incentives plus employee benefits) and a \$14 million decrease in the benefit from the provision for unfunded commitments and letters of credit. These effects were partially offset by a \$34 million decrease in FDIC insurance and other taxes.

Credit Summary

The Bancorp does not originate subprime mortgage loans and does not hold asset-backed securities backed by subprime mortgage loans in its securities portfolio. However, the Bancorp has exposure to disruptions in the capital markets and weakened economic conditions. Over the last few years, the Bancorp has continued to be negatively affected by high unemployment rates, weakened housing markets, particularly in the upper Midwest and Florida, and a challenging credit environment. Credit trends have improved more recently, and as a result, the provision for loan and lease losses decreased to \$91 million in the first quarter of 2012 compared to \$168 million in the same period last year. In addition, net charge-offs as a percent of average loans and leases decreased to 1.08% during the first quarter of 2012 compared to 1.92% during the same period last year. At March 31, 2012, nonperforming assets as a percent of loans, leases and other assets, including OREO (excluding nonaccrual loans held for sale) decreased to 2.03%, compared to 2.23% at December 31, 2011 and 2.73% at March 31, 2011. For further discussion on credit quality, see the Credit Risk Management section in MD&A.

Capital Summary

The Bancorp's capital ratios exceed the well-capitalized guidelines as defined by the Board of Governors of the Federal Reserve System. As of March 31, 2012, the Tier I capital ratio was 12.20%, the Tier I leverage ratio was 11.31% and the total risk-based capital ratio was 16.07%.

NON-GAAP FINANCIAL MEASURES

The Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio, tangible common equity ratio and Tier I common equity ratio, in addition to capital ratios defined by banking regulators. These calculations are intended to complement the capital ratios defined by banking regulators 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. Since analysts and banking regulators may assess the Bancorp's capital adequacy using these ratios, the Bancorp believes they are useful to provide investors the ability to assess its capital adequacy on the same basis.

The Bancorp believes these non-GAAP measures are important because they reflect the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of the Bancorp's capitalization to other organizations. However, because there are no standardized definitions for these ratios, the Bancorp's calculations may not be comparable with other organizations, and the usefulness of these measures to investors may be limited. As a result, 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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Pre-provision net revenue is net interest income plus noninterest income minus noninterest expense and taxable equivalent adjustment. The Bancorp believes this measure is important because it provides a ready view of the Bancorp's earnings before the impact of provision expense.

The following table reconciles non-GAAP financial measures to U.S. GAAP as of or for the three months ended:

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 2: Non-GAAP Financial Measures**

(\$ in millions)	March 31, 2012	December 31, 2011	March 31, 2011
Income before income taxes (U.S. GAAP)	\$ 603	418	377
Add: Provision expense (U.S. GAAP)	91	55	168
Pre-provision net revenue	694	473	545
Net income available to common shareholders (U.S. GAAP)	\$ 421	305	88
Add: Intangible amortization, net of tax	3	3	5
Tangible net income available to common shareholders	424	308	93
Total Bancorp shareholders' equity (U.S. GAAP)	\$ 13,560	13,201	12,163
Less: Preferred stock	(398)	(398)	(398)
Goodwill	(2,417)	(2,417)	(2,417)
Intangible assets	(36)	(40)	(55)
Tangible common equity, including unrealized gains / losses	10,709	10,346	9,293
Less: Accumulated other comprehensive income	(468)	(470)	(263)
Tangible common equity, excluding unrealized gains / losses (1)	10,241	9,876	9,030
Add: Preferred stock	398	398	398
Tangible equity (2)	\$ 10,639	10,274	9,428
Total assets (U.S. GAAP)	\$ 116,747	116,967	110,485
Less: Goodwill	(2,417)	(2,417)	(2,417)
Intangible assets	(36)	(40)	(55)
Accumulated other comprehensive income, before tax	(720)	(723)	(405)
Tangible assets, excluding unrealized gains / losses (3)	\$ 113,574	113,787	107,608
Total Bancorp shareholders' equity (U.S. GAAP)	\$ 13,560	13,201	12,163
Less: Goodwill and certain other intangibles	(2,518)	(2,514)	(2,546)
Accumulated other comprehensive income	(468)	(470)	(263)
Add: Qualifying trust preferred securities	2,248	2,248	2,763
Other	38	38	12
Tier I capital	12,860	12,503	12,129
Less: Preferred stock	(398)	(398)	(398)
Qualifying trust preferred securities	(2,248)	(2,248)	(2,763)
Qualified noncontrolling interests in consolidated subsidiaries	(50)	(50)	(30)
Tier I common equity (4)	\$ 10,164	9,807	8,938
Risk-weighted assets (5) ^(a)	\$ 105,412	104,945	99,392

Ratios:

Tangible equity (2) / (3)	9.37%	9.03	8.76
Tangible common equity (1) / (3)	9.02%	8.68	8.39
Tier I common equity (4) / (5)	9.64%	9.35	8.99

(a) Under the banking agencies' risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet exposures are assigned to broad risk categories. The aggregate dollar amount in each risk category is multiplied by the associated risk weight of the category. The resulting weighted values are added together, along with the measure for market risk, resulting in the Bancorp's total risk-weighted assets.

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 value of the Bancorp's assets or liabilities and 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 and goodwill. These accounting policies are discussed in detail in Management's Discussion and Analysis - Critical Accounting Policies in the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011. No material changes were made to the valuation techniques or models during the three months ended March 31, 2012.

Table of Contents**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 securities, loans and leases (including yield-related fees) and other interest-earning assets less the interest paid for core deposits (includes transaction deposits and other time deposits) and wholesale funding (includes certificates of deposit \$100,000 and over, other deposits, federal funds purchased, 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 rate 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.

Table 3 presents the components of net interest income, net interest margin and net interest rate spread for the three months ended March 31, 2012 and 2011, 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 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 securities included in other assets.

Net interest income was \$903 million for the first quarter of 2012, an increase of \$19 million compared to the first quarter of 2011. Included within net interest income are amounts related to the accretion of discounts on acquired loans and deposits, primarily as a result of acquisitions in previous years, which increased net interest income by \$8 million and \$13 million during the first quarter of 2012 and 2011, respectively. The original purchase accounting discounts reflected the high discount rates in the market at the time of the acquisitions; the total loan discounts are being accreted into net interest income over the remaining period to maturity of the loans acquired. Based upon the remaining period to maturity, and excluding the impact of prepayments, the Bancorp anticipates recognizing approximately \$9 million in additional net interest income during the remainder of 2012 as a result of the amortization and accretion of premiums and discounts on acquired loans and deposits.

For the three months ended March 31, 2012, net interest income was positively impacted by a \$4.4 billion increase in average loans as well as a decrease in interest expense compared to the same period in 2011. Partially offsetting these benefits were lower yields on the Bancorp's interest-earning assets. The increase in average loans was driven primarily by increases in commercial and industrial loans and residential mortgage loans compared to the quarter ended March 31, 2011. The decrease in interest expense was primarily the result of a 23 bp decrease in the rate paid on interest bearing liabilities from the quarter ended March 31, 2011, coupled with a continued mix shift to lower cost core deposits, partially offset by increased interest expense on long-term debt. For the quarter ended March 31, 2012, the net interest rate spread decreased to 3.39% from 3.45% in the first quarter of 2011 as the benefit of the decrease in rates on interest bearing liabilities was more than offset by a 29 bp decrease in yield on average interest earnings assets.

Net interest margin was 3.61% for the quarter ended March 31, 2012, compared to 3.71% in the same period in 2011. Net interest margin was impacted by the amortization and accretion of premiums and discounts on acquired loans and deposits that resulted in an increase in net interest margin of 3 bp during the first quarter of 2012 compared to an increase of 5 bp during the first quarter of 2011. Exclusive of these amounts, net interest margin decreased 8 bp for the quarter ended March 31, 2012 compared to the same period in the prior year primarily as the result of the previously mentioned decline in the yield on average interest-earning assets and securities and higher average balances on interest earning assets, partially offset by a mix shift to lower cost core deposits and an increase in free funding balances.

Total average interest-earning assets increased four percent for the quarter ended March 31, 2012 compared to the prior year primarily as the result of a 15% increase in average commercial and industrial loans and a 20% increase in average residential mortgage loans. For more information on the Bancorp's loan and lease portfolio, see the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A.

Interest income from loans and leases decreased \$12 million, or one percent, compared to the three months ended March 31, 2011 driven primarily by a 33 bp decrease in average loan yields partially offset by a six percent increase in average loans. Yields across much of the loan and lease portfolio decreased as the result of lower interest rates on newly originated loans. Interest income from investment securities and short-term investments decreased \$8 million, or five percent, from the prior year primarily as the result of a 28 bp decrease in the average yield on taxable securities.

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Average core deposits increased \$4.2 billion, or five percent, compared to the three months ended March 31, 2011 primarily due to an increase in average demand deposits and average interest checking deposits partially offset by decreases in average foreign office deposits and average time deposits. The cost of average core deposits decreased to 22 bp in the first quarter of 2012 compared to 45 bp from the prior year. This decrease was primarily the result of a mix shift to lower cost core deposits as a result of run-off of higher priced CDs combined with a 22 bp decrease in the rate paid on average savings deposits and a 74 bp decrease in the rate paid on average other time deposits compared to the three months ended March 31, 2011.

Interest expense on wholesale funding was flat for the quarter ended March 31, 2012, compared to the same period in the prior year, as certificates of deposit \$100,000 and over incurred both a \$1.0 billion decrease in average balances coupled with a 44 bp decrease in rate, offset by a 46 bp increase in the rate paid on long-term debt. During the quarters ended March 31, 2012 and 2011, wholesale funding represented 23% of interest bearing liabilities. Refer to the Borrowings subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp's borrowings. 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 section of MD&A.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 3: Condensed Average Balance Sheets and Analysis of Net Interest Income**

For the three months ended	March 31, 2012			March 31, 2011			Attribution of Change in Net Interest Income (a)		
	Average Balance	Revenue/Cost	Average Yield Rate	Average Balance	Revenue/Cost	Average Yield Rate	Volume	Yield/Rate	Total
(\$ in millions)									
Assets									
Interest-earning assets:									
Loans and leases: ^(b)									
Commercial and industrial loans	\$ 31,421	\$ 328	4.20%	\$ 27,404	\$ 301	4.45%	\$ 45	(18)	27
Commercial mortgage	10,077	99	3.95	10,816	110	4.11	(7)	(4)	(11)
Commercial construction	1,008	8	3.04	2,085	16	3.15	(7)	(1)	(8)
Commercial leases	3,543	33	3.79	3,364	35	4.17	1	(3)	(2)
Subtotal commercial	46,049	468	4.09	43,669	462	4.29	32	(26)	6
Residential mortgage loans	12,928	134	4.17	10,736	124	4.67	24	(14)	10
Home equity	10,606	101	3.85	11,376	111	3.96	(7)	(3)	(10)
Automobile loans	11,882	118	3.99	11,070	139	5.10	11	(32)	(21)
Credit card	1,926	45	9.43	1,852	48	10.43	2	(5)	(3)
Other consumer loans/leases	366	37	40.13	676	31	18.54	(18)	24	6
Subtotal consumer	37,708	435	4.64	35,710	453	5.14	12	(30)	(18)
Total loans and leases	83,757	903	4.34	79,379	915	4.67	44	(56)	(12)
Securities:									
Taxable	15,313	140	3.68	15,156	147	3.96	2	(9)	(7)
Exempt from income taxes ^(b)	59	1	5.60	197	2	4.77	(2)	1	(1)
Other short-term investments	1,363	1	0.26	1,937	1	0.25			
Total interest-earning assets	100,492	1,045	4.18	96,669	1,065	4.47	44	(64)	(20)
Cash and due from banks	2,345			2,268					
Other assets	15,734			14,897					
Allowance for loan and lease losses	(2,246)			(2,990)					
Total assets	\$ 116,325			\$ 110,844					
Liabilities and Equity									
Interest-bearing liabilities:									
Interest checking	\$ 22,308	\$ 12	0.22%	\$ 18,539	\$ 13	0.28%	\$ 1	(2)	(1)
Savings	21,944	11	0.21	21,324	23	0.43	1	(13)	(12)
Money market	4,543	3	0.22	5,136	4	0.32		(1)	(1)
Foreign office deposits	2,277	2	0.26	3,580	3	0.31	(1)		(1)
Other time deposits	4,551	18	1.62	7,363	42	2.36	(14)	(10)	(24)
Certificates \$100,000 and over	3,178	12	1.55	4,226	21	1.99	(5)	(4)	(9)
Other deposits	19		0.08	1		0.05			
Federal funds purchased	370		0.10	310		0.14			

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Other short-term borrowings	3,261	1	0.12	1,638	1	0.19	1	(1)	
Long-term debt	9,768	83	3.41	10,255	74	2.95	(3)	12	9
Total interest-bearing liabilities	72,219	142	0.79	72,372	181	1.02	(20)	(19)	(39)
Demand deposits	26,063			21,582					
Other liabilities	4,627			3,809					
Total liabilities	102,909			97,763					
Total equity	13,416			13,081					
Total liabilities and equity	\$ 116,325			\$ 110,844					
Net interest income	\$ 903			\$ 884			\$ 64	(45)	19
Net interest margin			3.61%			3.71%			
Net interest rate spread			3.39			3.45			
Interest-bearing liabilities to interest-earning assets			71.86			74.87			

(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 are \$5 for the three months ended **March 31, 2012** and 2011.

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, 2011. 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 actually removed from the Condensed Consolidated Balance Sheets is referred to as charge-offs. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The provision for loan and lease losses decreased to \$91 million for the three months ended March 31, 2012 compared to \$168 million during the same period in 2011. The decrease in provision expense compared to the same period in the prior year was due to decreases in nonperforming loans and leases, improved delinquency metrics in commercial and consumer loans and leases, and improvement in underlying loss trends. The ALLL declined \$679 million from \$2.8 billion at March 31, 2011 to \$2.1 billion at March 31, 2012. As of March 31, 2012, the ALLL as a percent of loans and leases decreased to 2.59%, compared to 3.62% at March 31, 2011.

Refer to the Credit Risk Management section of the 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 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 increased \$185 million, or 32%, for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The components of noninterest income are as follows:

TABLE 4: Noninterest Income

(\$ in millions)	For the three months ended March 31,		Percent Change
	2012	2011	
Mortgage banking net revenue	\$ 204	102	100
Service charges on deposits	129	124	4
Corporate banking revenue	97	86	13
Investment advisory revenue	96	98	(2)
Card and processing revenue	59	80	(26)
Other noninterest income	175	81	116
Securities gains, net	9	8	13
Securities gains, net-non-qualifying hedges on mortgage servicing rights		5	NM
Total noninterest income	\$ 769	584	32

Mortgage banking net revenue

Mortgage banking net revenue increased \$102 million in the first quarter of 2012 compared to the first quarter of 2011. The components of mortgage banking net revenue are as follows:

TABLE 5: Components of Mortgage Banking Net Revenue

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Origination fees and gains on loan sales	\$ 174	62
Net servicing revenue:		
Gross servicing fees	61	58
Servicing rights amortization	(46)	(28)

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Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	15	10
Net servicing revenue	30	40
Mortgage banking net revenue	\$ 204	102

Origination fees and gains on loan sales increased \$112 million in the first quarter of 2012 compared to the same period in 2011 as the result of a 64% increase in residential mortgage loan originations compared to 2011 coupled with an increase in profit margins on sold residential mortgage loans. Residential mortgage loan originations increased to \$6.4 billion during the first quarter of 2012 compared to \$3.9 billion during the same period in 2011. The increase in originations is primarily due to strong refinancing activity as mortgage rates remain at historical lows.

Net servicing revenue is comprised of gross servicing fees and related servicing rights amortization as well as valuation adjustments on MSRs and mark-to-market adjustments on both settled and outstanding free-standing derivative financial instruments used to economically hedge the MSR portfolio. Net servicing revenue decreased \$10 million during the first quarter of 2012 compared to the same period in 2011, driven primarily by an \$18 million increase in servicing rights amortization as a result of an increase in prepayments.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The net valuation adjustment of \$15 million during the first quarter of 2012 included an \$11 million recovery on temporary impairment on the MSR's as well as \$4 million in gains from derivatives economically hedging the MSR's. The gain in the net valuation adjustment is reflective of refinancing activity in recent years that has contributed to prepayments being less sensitive to lower mortgage rates due to customers taking advantage of these lower rates in earlier periods, as well as the impact of tighter underwriting standards. Gross servicing fees increased \$3 million in the first quarter of 2012 compared to the same period in 2011 as a result of an increase in the size of the Bancorp's servicing portfolio. The Bancorp's total residential loans serviced as of March 31, 2012, December 31, 2011 and March 31, 2011 was \$72.9 billion, \$70.6 billion and \$66.0 billion, respectively, with \$60.4 billion, \$57.1 billion and \$55.4 billion, respectively, of residential mortgage loans serviced for others.

Servicing rights are deemed impaired when a borrower's loan rate is distinctly higher than prevailing rates. Impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower's loan rate. Further detail on the valuation of MSR's can be found in Note 9 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 on the MSR portfolio. See Note 10 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. There were no sales of securities related to the Bancorp's non-qualifying hedging strategy during the first quarter of 2012. Net gains on sales of these securities were \$5 million for the quarter ended March 31, 2011, which were recorded in securities gains, net, non-qualifying hedges on mortgage servicing rights in the Bancorp's Condensed Consolidated Statements of Income.

Service charges on deposits

Service charges on deposits increased \$5 million in the first quarter of 2012 compared to the same period in 2011. This increase was primarily driven by commercial deposit revenue which increased \$5 million, or seven percent, compared to the first quarter of 2011 due to an increase in commercial account relationships. Earnings credits paid on customer balances were flat compared to the first quarter of 2011. Commercial customers receive earnings credits to offset the fees charged for banking services on their deposit accounts such as account maintenance, lockbox, ACH transactions, wire transfers and other ancillary corporate treasury management services. Earnings credits are based on the customer's average balance in qualifying deposits multiplied by the crediting rate. Qualifying deposits include demand deposits and interest-bearing checking accounts. The Bancorp has a standard crediting rate that is adjusted as necessary based on the competitive market conditions and changes in short-term interest rates.

Corporate banking revenue

Corporate banking revenue increased \$11 million in the first quarter of 2012 compared to the same period in 2011. The increase from the prior year was primarily driven by higher syndication fees due to increased market and business activity during the first quarter of 2012. In addition, improved business lending fees, institutional sales revenue and lease fees contributed to the increase compared to prior year primarily as a result of increased refinancing activities in the current market environment.

Investment advisory revenue

Investment advisory revenue was relatively flat in the first quarter of 2012 compared to the same period in 2011, as a decline in mutual fund fees was offset by the positive impact of an overall increase in equity and bond market values. As of March 31, 2012, the Bancorp had approximately \$296 billion in total assets under care and managed \$26 billion in assets for individuals, corporations and not-for-profit organizations.

On April 5, 2012, the Bancorp announced that FTAM entered into two agreements under which a third party will acquire assets of 16 mutual funds from FTAM and another third party will acquire certain assets relating to the management of Fifth Third money market funds. The closings of the transactions are subject to certain conditions and approvals and are expected to be completed in the third quarter of 2012. The transactions are not expected to have a material impact on the Bancorp's results.

Card and processing revenue

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Card and processing revenue decreased \$21 million in the first quarter of 2012 compared to the same period in 2011. The decrease was primarily the result of the impact of the implementation of the Dodd-Frank Act's debit card interchange fee cap in the fourth quarter of 2011. This impact was partially offset by increased debit and credit card transaction volumes.

Other noninterest income

The major components of other noninterest income are as follows:

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 6: Components of Other Noninterest Income**

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Gain on Vantiv, Inc. IPO	\$ 115	
Operating lease income	14	15
Cardholder fees	11	9
BOLI income	9	11
Insurance income	7	8
Consumer loan and lease fees	7	7
Banking center income	7	7
Gain on loan sales	5	17
Loss on sale of OREO	(17)	(2)
Equity method (loss) earnings from interest in Vantiv Holding, LLC	(24)	9
Other, net	41	
Total other noninterest income	\$ 175	81

Other noninterest income increased \$94 million in the first quarter of 2012 compared to the same period in 2011 primarily due to a \$115 million gain from the Vantiv, Inc. IPO. Excluding this impact, other noninterest income declined \$21 million compared to the first quarter of 2011, driven by \$24 million in losses related to the equity method income recorded from the Bancorp's ownership interest in Vantiv Holding, LLC. The \$24 million of equity method losses is comprised of \$34 million in debt termination charges incurred in connection with the refinancing of Vantiv Holding, LLC debt held by the Bancorp partially offset by \$10 million in first quarter equity method earnings. Additionally, other noninterest income decreased due to a \$19 million charge related to the increase in fair value of the liability on the swap associated with the sale of Visa, Inc. Class B shares; a decrease of \$12 million in the gains on loan sales and a \$15 million increase in losses on the sale of OREO. These impacts were partially offset by \$46 million in positive valuation adjustments on the warrants and put options issued as part of the Bancorp's sale of its processing business, recorded in the other caption above. For additional information on the valuation of the swap associated with the sale of Visa, Inc. Class B shares and the valuation of warrants and put options associated with the sale of the processing business, see Note 18 of the Notes to Condensed Consolidated Financial Statements.

Noninterest Expense

Total noninterest expense increased \$55 million, or six percent, in the first quarter of 2012 compared to the same period in 2011. The major components of other noninterest expense are as follows:

TABLE 7: Noninterest Expense

(\$ in millions)	For the three months ended March 31,		Percent Change
	2012	2011	
Salaries, wages and incentives	\$ 399	351	14
Employee benefits	112	97	15
Net occupancy expense	77	77	
Technology and communications	47	45	4
Card and processing expense	30	29	3

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Equipment expense	27	29	(7)
Other noninterest expense	281	290	(3)
Total noninterest expense	\$ 973	918	6
Efficiency ratio	58.3%	62.5	

Total personnel costs increased \$63 million, or 14%, compared to the first quarter of 2011 due to an increase in base and incentive compensation driven by higher compensation costs reflecting strong results within mortgage and corporate banking, as well as higher employee benefits expense. Full time equivalent employees totaled 21,206 at March 31, 2012 compared to 20,837 at March 31, 2011.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 8: Components of Other Noninterest Expense**

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Loan and lease	\$ 45	46
Losses and adjustments	40	29
Affordable housing investments impairment	27	25
Marketing	23	22
FDIC insurance and other taxes	18	52
Postal and courier	13	13
Travel	13	12
Professional services fees	11	15
Operating lease	10	11
Recruitment and education	7	7
OREO	5	13
Insurance	5	12
Intangible asset amortization	4	7
Provision for unfunded commitments and letters of credit	(2)	(16)
Other, net	62	42
Total other noninterest expense	\$ 281	290

Total other noninterest expense decreased \$9 million, or three percent, in the first quarter of 2012 compared to the same period in 2011. Other noninterest expense was impacted by a \$34 million decline in FDIC insurance and other taxes due primarily to \$23 million in expense reduction from an agreement reached on certain outstanding disputes for non-income tax related assessments. Additionally, contributing to this decline was the FDIC's implementation of amended regulations, effective April 1, 2011, that revised the Federal Deposit Insurance Act. The amended regulations modified the definition of an institution's deposit insurance assessment base from domestic deposits to quarterly average total assets less quarterly average tangible equity (defined as Tier I capital) as well as the assessment rate calculation. These effects were partially offset by a \$12 million increase in legal expense, a \$12 million increase in debt termination charges and a \$7 million increase in the expense related to the reserve for representation and warranty claims, recorded in losses and adjustments. In addition, the provision for unfunded commitments and letters of credit was a benefit of \$2 million in the first quarter of 2012 compared to a benefit of \$16 million during the same period in 2011. The reduction in the benefit was due to a leveling off of loss rates in the first quarter of 2012 as well as an increase in the unfunded commitments for which the Bancorp holds reserves compared to the first quarter of 2011.

The Bancorp continues to focus on efficiency initiatives as part of its core emphasis on operating leverage and expense control. The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 58.3% for the three months ended March 31, 2012, compared to 62.5% in the same period in 2011.

Applicable Income Taxes

The Bancorp's income before income taxes, applicable income tax expense and effective tax rate are as follows:

TABLE 9: Applicable Income Taxes

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(\$ in millions)	For the three months ended March 31,	
	2012	2011
Income before income taxes	\$ 603	377
Applicable income tax expense	173	112
Effective tax rate	28.6%	29.7

Applicable income tax expense for all periods includes the benefit from tax-exempt income, tax-advantaged investments, certain gains on sales of leases that are exempt from federal taxation 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.

Deductibility of Executive Compensation

Certain sections of the IRC limit the deductibility of compensation paid to or earned by certain executive officers of a public company. This has historically limited the deductibility of certain executive compensation to \$1 million per executive officer, and the Bancorp's compensation philosophy has been to position pay to ensure deductibility. However, both the amount of the executive compensation that is deductible for certain executive officers and the allowable compensation vehicles changed as a result of the Bancorp's participation in TARP. In particular, the Bancorp was not permitted to deduct compensation earned by certain executive officers in excess of \$500,000 per executive officer as a result of the Bancorp's participation in TARP. Therefore, a portion of the compensation earned by certain executive officers was

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not deductible by the Bancorp for the period in which the Bancorp participated in TARP. Subsequent to ending its participation in TARP, certain limitations on the deductibility of executive compensation will continue to apply to some forms of compensation earned while under TARP. The Bancorp's Compensation Committee determined that the underlying executive compensation programs are appropriate and necessary to attract, retain and motivate senior executives, and that failing to meet these objectives creates more risk for the Bancorp and its value than the financial impact of losing the tax deduction. For the year ended 2011, the total tax impact for non-deductible compensation was \$2 million.

BALANCE SHEET ANALYSIS**Loans and Leases**

The Bancorp classifies its loans and leases based upon the primary purpose of the loan. Table 10 summarizes end of period loans and leases, including loans held for sale and Table 11 summarizes average total loans and leases, including loans held for sale.

TABLE 10: Components of Total Loans and Leases (includes held for sale)

(\$ in millions)	March 31, 2012		December 31, 2011		March 31, 2011	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial and industrial loans	\$ 32,203	39	30,828	38	27,431	35
Commercial mortgage loans	9,976	12	10,214	12	10,617	14
Commercial construction loans	916	1	1,037	1	2,020	3
Commercial leases	3,512	4	3,531	4	3,367	4
Subtotal commercial	46,607	56	45,610	55	43,435	56
Consumer:						
Residential mortgage loans	12,523	15	13,474	16	10,556	13
Home equity	10,493	13	10,719	13	11,222	14
Automobile loans	11,832	14	11,827	14	11,129	14
Credit card	1,896	2	1,978	2	1,821	2
Other consumer loans and leases	346		364		593	1
Subtotal consumer	37,090	44	38,362	45	35,321	44
Total loans and leases	\$ 83,697	100	83,972	100	78,756	100
Total portfolio loans and leases (excludes loans held for sale)	\$ 82,113		81,018		77,465	

Total loans and leases, including held for sale, decreased \$275 million from December 31, 2011 and increased \$4.9 billion, or six percent, from March 31, 2011. The decrease from December 31, 2011 was due to a decrease of \$1.3 billion, or three percent, in consumer loans and leases partially offset by an increase of \$997 million, or two percent, in commercial loans and leases. The increase from March 31, 2011 was due to an increase of \$3.2 billion, or seven percent, in commercial loans and leases and an increase of \$1.8 billion, or five percent, in consumer loans and leases.

Total commercial loans and leases increased from December 31, 2011 and March 31, 2011 primarily due to an increase in commercial and industrial loans partially offset by a decrease in commercial mortgage loans and commercial construction loans. Commercial and industrial loans increased \$1.4 billion, or four percent, from December 31, 2011 and \$4.8 billion, or 17%, from March 31, 2011 due to an increase in new loan

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origination activity due to increase in demand and an increase in line utilization rates. Commercial construction loans decreased \$121 million, or 12%, from December 31, 2011 and \$1.1 billion, or 55%, from March 31, 2011 and commercial mortgage loans decreased \$238 million, or two percent, from December 31, 2011 and \$641 million, or six percent, from March 31, 2011 due to continued run-off in these loan categories. The run-off reflects weak customer demand, tightened underwriting standards and previous suspensions of new homebuilder and developer lending and non-owner occupied real estate lending.

Total consumer loans and leases decreased from December 31, 2011 primarily due to a decrease in residential mortgage loans and home equity loans. Residential mortgage loans decreased \$951 million, or seven percent, from December 31, 2011 due to the sale of \$1.4 billion of residential mortgage loans held for sale during the first quarter of 2012. The decrease in residential mortgage loans was partially offset by management's decision to retain certain shorter term residential mortgage loans originated through the Bancorp's retail branches. Home equity loans decreased \$226 million, or two percent, due to decreased customer demand.

Total consumer loans and leases increased from March 31, 2011 primarily due to an increase in residential mortgage loans and automobile loans partially offset by a decrease in home equity loans. Residential mortgage loans increased \$2.0 billion, or 19%, from March 31, 2011 primarily due to management's decision to retain certain shorter term residential mortgage loans originated through the Bancorp's retail branches throughout 2011 and 2012 and stronger loan production in the first quarter of 2012 compared to the first quarter of 2011. Automobile loans increased \$703 million, or six percent, from March 31, 2011 due to strong origination volumes through consistent and competitive pricing, enhanced customer service with our dealership network, and disciplined sales execution. Home equity loans decreased \$729 million, or seven percent, due to decreased customer demand.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 11: Components of Average Total Loans and Leases (includes held for sale)**

For the three months ended (\$ in millions)	March 31, 2012		December 31, 2011		March 31, 2011	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial and industrial loans	\$ 31,421	38	29,954	36	27,404	34
Commercial mortgage loans	10,077	12	10,350	13	10,816	14
Commercial construction loans	1,008	1	1,155	1	2,085	3
Commercial leases	3,543	4	3,352	4	3,364	4
Subtotal commercial	46,049	55	44,811	54	43,669	55
Consumer:						
Residential mortgage loans	12,928	16	12,638	16	10,736	14
Home equity	10,606	13	10,810	13	11,376	14
Automobile loans	11,882	14	11,696	14	11,070	14
Credit card	1,926	2	1,906	2	1,852	2
Other consumer loans and leases	366		417	1	676	1
Subtotal consumer	37,708	45	37,467	46	35,710	45
Total average loans and leases	\$ 83,757	100	82,278	100	79,379	100
Total portfolio loans and leases (excludes loans held for sale)	\$ 81,500		79,914		77,636	

Average total loans and leases, including held for sale, increased \$1.5 billion, or two percent, from December 31, 2011 and increased \$4.4 billion, or six percent, from March 31, 2011. The increase from December 31, 2011 was driven by an increase of \$1.2 billion, or three percent, in average commercial loans and leases and an increase of \$241 million, or one percent, in average consumer loans and leases. The increase from March 31, 2011 was due to an increase of \$2.4 billion, or five percent, in average commercial loans and leases and an increase of \$2.0 billion, or six percent, in average consumer loans and leases.

Average total commercial loans and leases increased from December 31, 2011 due to an increase of \$1.5 billion, or five percent, in average commercial and industrial loans, partially offset by a decrease of \$273 million, or three percent, in average commercial mortgage loans and a decrease of \$147 million, or 13%, in average commercial construction loans. Average commercial and industrial loans increased due to an increase in new loan origination activity due to increased demand. Average commercial mortgage loans and average commercial construction loans decreased due to continued run-off in these loan categories as previously discussed. Average total commercial loans and leases increased from March 31, 2011 due to an increase of \$4.0 billion, or 15%, in average commercial and industrial loans, partially offset by a decrease of \$1.1 billion, or 52%, in average commercial construction loans, and a decrease of \$739 million, or seven percent, in average commercial mortgage loans due to the reasons previously discussed.

The increase in average consumer loans and leases from December 31, 2011 was due to an increase in average residential mortgage loans and average automobile loans, partially offset by a decrease in average home equity loans. Average residential mortgage loans increased \$290 million, or two percent, due to management's decision to retain certain shorter term residential mortgage loans originated through the Bancorp's retail branches. Average automobile loans increased \$186 million, or two percent, due to seasonality. Average home equity loans decreased \$204 million, or two percent, due to decreased customer demand. The increase in average consumer loans and leases from March 31, 2011 was due to an increase of \$2.2 billion, or 20%, in average residential mortgage loans and an increase of \$812 million, or seven percent, in average automobile loans, partially offset by a decrease of \$770 million, or seven percent, in average home equity loans due to the reasons previously

discussed in the year-over-year end of period discussion above.

Investment Securities

The Bancorp uses investment securities as a means of managing interest rate risk, providing liquidity support and providing collateral for pledging purposes. As of March 31, 2012, total investment securities were \$16.6 billion compared to \$15.9 billion at December 31, 2011 and \$15.7 billion at March 31, 2011.

Securities are classified as trading when bought and held principally for the purpose of selling them in the near term. 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. The Bancorp's management has evaluated the securities in an unrealized loss position in the available-for-sale and held-to-maturity portfolios for OTTI. See Note 4 of the Notes to the Condensed Consolidated Financial Statements for further information on OTTI.

At March 31, 2012, the Bancorp's investment portfolio consisted primarily of AAA-rated available-for-sale securities. The Bancorp did not hold asset-backed securities backed by subprime mortgage loans in its investment portfolio. Additionally, there was approximately \$119 million of securities classified as below investment grade as of March 31, 2012, compared to \$122 million as of December 31, 2011 and \$134 million as of March 31, 2011.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 12: Components of Investment Securities**

(\$ in millions)	March 31, 2012	December 31, 2011	March 31, 2011
Available-for-sale and other: (amortized cost basis)			
U.S. Treasury and government agencies	\$ 51	171	225
U.S. Government sponsored agencies	1,782	1,782	1,669
Obligations of states and political subdivisions	210	96	152
Agency mortgage-backed securities	9,834	9,743	10,439
Other bonds, notes and debentures ^(a)	2,315	1,792	1,177
Other securities ^(b)	1,149	1,030	1,045
Total available-for-sale and other securities	\$ 15,341	14,614	14,707
Held-to-maturity: (amortized cost basis)			
Obligations of states and political subdivisions	\$ 319	320	341
Other bonds, notes and debentures	2	2	5
Total held-to-maturity	\$ 321	322	346
Trading: (fair value)			
Obligations of states and political subdivisions	\$ 20	9	21
Agency mortgage-backed securities	19	11	35
Other bonds, notes and debentures	11	13	11
Other securities	145	144	149
Total trading	\$ 195	177	216

(a) Other bonds, notes, and debentures consist of non-agency mortgage backed securities, certain other asset backed securities (primarily automobile and commercial loan backed securities) and corporate bond securities.

(b) Other securities consist of FHLB and FRB restricted stock holdings that are carried at par, FHLMC and FNMA preferred stock holdings and certain mutual fund holdings and equity security holdings.

Available-for-sale securities on an amortized cost basis increased \$727 million, or five percent, from December 31, 2011 due to an increase in other bonds, notes and debentures, other securities, and obligations of states and political subdivisions, partially offset by a decrease in U.S. Treasury and government agency securities. Other bonds, notes, and debentures increased \$523 million, or 29%, primarily due to \$580 million in purchases of commercial mortgage-backed securities, asset-backed securities, and corporate bonds during the first quarter of 2012. Other securities increased \$119 million, or 12%, as excess cash from the run-off of short-term investments was re-invested primarily in money market mutual funds. The increase of \$114 million, or 119%, in obligations of states and political subdivision securities was due to a decrease of \$120 million, or 70%, in U.S. Treasury and government agencies securities as these securities matured and the excess cash was reinvested in obligations of states and political subdivisions securities.

Available-for-sale securities on an amortized cost basis increased \$634 million, or four percent, from March 31, 2011 primarily due to an increase in other bonds, notes and debentures partially offset by a decrease in agency-mortgage backed securities. Other bonds, notes, and debentures increased \$1.1 billion, or 97%, as excess cash from the maturities of agency mortgage-backed securities was reinvested in other bonds, notes, and debentures. The remaining increase in other bonds, notes and debentures was due to purchases of commercial mortgage backed securities, asset-backed securities, and corporate bonds during the year.

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At March 31, 2012 and March 31, 2011, available-for-sale securities were 15% of total interest-earning assets compared to 14% at December 31, 2011. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 3.9 years at March 31, 2012, 3.6 years at December 31, 2011, and 4.6 years at March 31, 2011. In addition, at March 31, 2012, the available-for-sale securities portfolio had a weighted-average yield of 3.69%, compared to 3.66% at December 31, 2011 and 4.30% at March 31, 2011.

Information presented in Table 13 is on a weighted-average life basis, anticipating future prepayments. Yield information is presented on an FTE basis and is computed using historical cost balances. Maturity and yield calculations for the total available-for-sale portfolio exclude equity securities that have no stated yield or maturity. Total net unrealized gains on the available-for-sale securities portfolio were \$752 million at March 31, 2012, compared to \$748 million at December 31, 2011 and \$428 million at March 31, 2011. The increase in net unrealized gains from March 31, 2011 was due to a continued low interest rate environment.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 13: Characteristics of Available-for-Sale and Other Securities**

As of March 31, 2012 (\$ in millions)	Amortized Cost	Fair Value	Weighted-Average Life (in years)	Weighted-Average Yield
U.S. Treasury and government agencies:				
Average life of one year or less	\$ 50	50	0.5	1.44%
Average life 5 - 10 years	1	1	6.9	1.61
Total	51	51	0.6	1.44
U.S. Government sponsored agencies:				
Average life of one year or less	50	51	0.5	1.54
Average life 1 - 5 years	1,129	1,231	3.9	3.39
Average life 5 - 10 years	603	672	5.2	3.69
Total	1,782	1,954	4.3	3.44
Obligations of states and political subdivisions:^(a)				
Average life of one year or less	121	121	0.1	3.94
Average life 1 - 5 years	53	53	2.9	0.11
Average life 5 - 10 years	34	38	8.5	5.92
Average life greater than 10 years	2	2	12.3	0.01
Total	210	214	2.3	3.27
Agency mortgage-backed securities:				
Average life of one year or less	500	517	0.7	4.80
Average life 1 - 5 years	8,520	8,975	3.5	3.91
Average life 5 - 10 years	798	849	7.4	3.90
Average life greater than 10 years	16	17	10.4	4.24
Total	9,834	10,358	3.7	3.96
Other bonds, notes and debentures:				
Average life of one year or less	209	216	0.5	5.33
Average life 1 - 5 years	1,366	1,393	3.2	2.61
Average life 5 - 10 years	649	662	6.6	2.49
Average life greater than 10 years	91	94	27.5	3.26
Total	2,315	2,365	4.9	2.85
Other securities	1,149	1,151		
Total available-for-sale and other securities	\$ 15,341	16,093	3.9	3.69%

(a) Taxable-equivalent yield adjustments included in the above table are 0.14%, 0.03%, 2.00%, 0.01% and 0.42% for securities with an average life of one year or less, 1-5 years, 5-10 years, greater than 10 years and in total, respectively.

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. Core deposits represented 71% of the Bancorp's asset funding base for all periods presented.

TABLE 14: Deposits

(\$ in millions)	March 31, 2012		December 31, 2011		March 31, 2011	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Demand	\$ 26,385	31	27,600	32	22,066	27
Interest checking	23,971	28	20,392	24	18,597	23
Savings	22,245	26	21,756	25	21,697	26
Money market	4,275	5	4,989	6	5,184	6
Foreign office	1,251	1	3,250	4	3,569	4
Transaction deposits	78,127	91	77,987	91	71,113	86
Other time	4,446	5	4,638	5	7,043	9
Core deposits	82,573	96	82,625	96	78,156	95
Certificates - \$100,000 and over	3,162	4	3,039	4	4,160	5
Other	56		46		1	
Total deposits	\$ 85,791	100	85,710	100	82,317	100

Core deposits decreased \$52 million from December 31, 2011, driven by a decrease of \$192 million, or four percent, in other time deposits partially offset by an increase of \$140 million in transaction deposits. The decrease in other time deposits from December 31, 2011 was primarily the result of continued run-off of certificates of deposits due to the low interest rate environment, as customers have opted to maintain balances in more liquid transaction accounts. The increase in transaction deposits was primarily the result of increases in interest checking deposits and savings deposits, partially offset by decreases in foreign office deposits and demand deposits. Interest checking deposits increased \$3.6 billion, or 18%, from December 31, 2011 partially driven by account migration from foreign office deposits which decreased \$2.0 billion, or 62%. The remaining increase in interest checking deposits was due to an increase in new accounts from the

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

preferred checking program introduced in February 2011 and an increase due to customers migrating from maturing certificates of deposits to interest checking deposits due to the low interest rate environment. Saving deposits increased \$489 million, or two percent, from December 31, 2011 primarily due to growth from customers migrating from maturing certificates of deposits to saving deposits due to the low interest rate environment and the impact of the relationship savings program. Demand deposits decreased \$1.2 billion, or four percent, due to seasonality as commercial customers opted to hold excess cash at December 31, 2011 and reinvest the cash during the first quarter of 2012.

Core deposits increased \$4.4 billion, or six percent, from March 31, 2011 driven by an increase of \$7.0 billion, or 10%, in transaction deposits, partially offset by a decrease of \$2.6 billion, or 37%, in other time deposits. The increase in transaction deposits was primarily due to an increase in demand deposits and interest checking deposits, partially offset by a decrease in foreign office deposits. Interest checking deposits increased \$5.4 billion, or 29%, from March 31, 2011 partially driven by account migration from foreign office deposits which decreased \$2.3 billion, or 65%. The remaining increase in interest checking deposits was due to growth from maturing certificates of deposits and an increase in new accounts from the preferred checking program introduced in February 2011. Demand deposits increased \$4.3 billion, or 20%, from March 31, 2011 primarily due to growth from maturing certificates of deposits as commercial customers are opting to hold excess cash in demand deposits. Other time deposits decreased \$2.6 billion, or 37%, compared to March 31, 2011, primarily as a result of continued run-off of certificates of deposits due to the low interest rate environment, as customers have opted to maintain balances in more liquid transaction accounts.

The Bancorp uses certificates \$100,000 and over, as a method to fund earning asset growth. At March 31, 2012, certificates \$100,000 and over increased \$123 million, or four percent, compared to December 31, 2011 and decreased \$1.0 billion, or 24%, from March 31, 2011. The increase from December 31, 2011 was due to an increase in new commercial customer deposits greater than \$100,000 due to increased marketing efforts and the decrease from March 31, 2011 was due to continued run-off from the low rate environment.

The following table presents average deposits for the three months ending:

TABLE 15: Average Deposits

(\$ in millions)	March 31, 2012		December 31, 2011		March 31, 2011	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Demand	\$ 26,063	31	26,069	31	21,582	27
Interest checking	22,308	26	19,263	23	18,539	23
Savings	21,944	26	21,715	26	21,324	26
Money market	4,543	5	5,255	6	5,136	6
Foreign office	2,277	3	3,325	4	3,580	4
Transaction deposits	77,135	91	75,627	90	70,161	86
Other time	4,551	5	4,960	6	7,363	9
Core deposits	81,686	96	80,587	96	77,524	95
Certificates - \$100,000 and over	3,178	4	3,085	4	4,226	5
Other	19		16		1	
Total average deposits	\$ 84,883	100	83,688	100	81,751	100

On an average basis, core deposits increased \$1.1 billion, or one percent, compared to December 31, 2011 due to an increase of \$1.5 billion, or two percent, in average transaction deposits partially offset by a decrease of \$409 million, or eight percent, in average other time deposits. Average interest checking deposits increased \$3.0 billion, or 16%, from December 31, 2011 partially driven by the account migration from average foreign office deposits mentioned above which decreased \$1.0 billion, or 32%, from December 31, 2011. The remaining increase in

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interest checking deposits was due to an increase in new accounts from the preferred checking program introduced in February 2011 and growth from maturing certificates of deposits. The decrease of \$409 million, or eight percent, in average other time deposits was primarily the result of continued run-off of certificates of deposits due to the low interest rate environment, as customers have opted to maintain balances in more liquid transaction accounts.

Average core deposits increased \$4.2 billion, or five percent, from March 31, 2011 due to an increase of \$7.0 billion, or 10%, in average transaction deposits partially offset by a decrease of \$2.8 billion, or 38%, in average other time deposits. The increase in average core deposits was due to the account migration from foreign office deposits to interest checking deposits and migration of other time deposits into transaction accounts, due to the impact of historically low interest rates and excess customer liquidity discussed above.

Other time deposits and certificates \$100,000 and over totaled \$7.6 billion, \$7.7 billion, and \$11.2 billion at March 31, 2012, December 31, 2011, and March 31, 2011, respectively. Substantially all of these deposits were interest bearing. The contractual maturities of these deposits as of March 31, 2012 are summarized in the following table.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 16: Contractual Maturities of Deposits**

(\$ in millions)	March 31, 2012
Next 12 months	\$ 4,157
13-24 months	2,047
25-36 months	784
37-48 months	352
49-60 months	215
After 60 months	53
Total	\$ 7,608

Certificates \$100,000 and over were \$3.2 billion, \$3.0 billion, and \$4.2 billion at March 31, 2012, December 31, 2011, and March 31, 2011, respectively. The contractual maturities of these deposits as of March 31, 2012 are summarized in the following table.

TABLE 17: Contractual Maturities of Certificates - \$100,000 and over

(\$ in millions)	March 31, 2012
Three months or less	\$ 654
After three months through six months	290
After six months through twelve months	924
After twelve months	1,294
Total	\$ 3,162

Borrowings

Total borrowings decreased \$423 million, or three percent, from December 31, 2011 and increased \$660 million, or five percent, compared to March 31, 2011. The decrease in total borrowings from December 31, 2011 was primarily due to a decrease in other short-term borrowings and the increase from March 31, 2011 was primarily due to an increase in other short-term borrowings partially offset by a decrease in long-term debt. As of March 31, 2012 and December 31, 2011, total borrowings as a percentage of interest-bearing liabilities were 19% compared to 17% at March 31, 2011.

TABLE 18: Borrowings

(\$ in millions)	March 31, 2012	December 31, 2011	March 31, 2011
Federal funds purchased	\$ 319	346	332
Other short-term borrowings	2,877	3,239	1,297
Long-term debt	9,648	9,682	10,555
Total borrowings	\$ 12,844	13,267	12,184

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Other short-term borrowings decreased \$362 million, or 11%, from December 31, 2011 driven by a decrease of \$175 million in short-term FHLB borrowings and a decrease of \$169 in securities sold under repurchase agreements which are accounted for as collateralized financing transactions.

Other short-term borrowings increased \$1.6 billion, or 122%, from March 31, 2011 driven by an increase of \$1.3 billion in short-term FHLB borrowings, which replaced certificates of deposits greater than \$100,000 as customers opted to maintain their balances in more liquid accounts. Long-term debt decreased \$907 million, or nine percent, from March 31, 2011 due to the termination of \$250 million of structured repurchase agreements classified as long-term debt, the redemption of \$519 million of certain trust preferred securities, at par, classified as long-term debt and the decrease of \$503 million in long-term FHLB advances partially offset by the issuance of \$500 million of senior notes by the Bancorp to third party investors in the first quarter of 2012. In addition the Bancorp redeemed \$85 million of outstanding home equity securitization debt from the market in 2011, which was accounted for as an extinguishment of debt.

The following table presents average borrowings for the three months ending:

TABLE 19: Average Borrowings

(\$ in millions)	March 31, 2012	December 31, 2011	March 31, 2011
Federal funds purchased	\$ 370	348	310
Other short-term borrowings	3,261	3,793	1,638
Long-term debt	9,768	9,707	10,255
 Total average borrowings	 \$ 13,399	 13,848	 12,203

Average total borrowings decreased \$449 million, or three percent, compared to December 31, 2011, primarily due to the previously mentioned decrease in average other short-term borrowings, partially offset by an increase in average long-term debt. Average total borrowings increased \$1.2 billion, or 10%, compared to March 31, 2011, primarily due to the previously mentioned increase in average other short-term borrowings partially offset by a decrease in average long-term debt.

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

Information on the average rates paid on borrowings is discussed in the Net Interest Income section of the MD&A. In addition, refer to the Liquidity Risk Management section for a discussion on the role of borrowings in the Bancorp's liquidity management.

Table of Contents**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 Investment Advisors. Additional detailed financial information on each business segment is included in Note 19 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 are improved or businesses change.

The Bancorp manages interest rate risk centrally at the corporate level and employs a FTP methodology at the business segment level. This methodology insulates the business segments from interest rate volatility, enabling them to focus on serving customers through loan originations and deposit taking. The FTP system assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on expected duration and the LIBOR swap curve. Matching duration allocates interest income and interest expense to each segment so its resulting net interest income is insulated from interest rate risk. In a rising rate environment, the Bancorp benefits from the widening spread between deposit costs and wholesale funding costs. However, the Bancorp's FTP system credits this benefit to deposit-providing businesses, such as Branch Banking and Investment Advisors, on a duration-adjusted basis. The net impact of the FTP methodology is captured in General Corporate and Other.

The Bancorp adjusts the FTP charge and credit rates as dictated by changes in interest rates for various interest-earning assets and liabilities and by the review of the estimated durations for the indeterminate-lived deposits. The credit rate provided for DDAs is reviewed annually based upon the account type, its estimated duration and the corresponding fed funds, LIBOR or swap rate. The credit rates for several deposit products were reset January 1, 2012 to reflect the current market rates and updated duration assumptions. These rates were lower than those in place during 2011, thus net interest income for deposit providing businesses was negatively impacted for the three months ended March 31, 2012.

The business segments are charged provision expense based on the actual net charge-offs experienced by the loans owned by each segment. Provision expense attributable to loan growth and changes in factors in the ALLL are captured in General Corporate and Other. The financial results of the business segments include allocations for shared services and headquarters expenses. Even with these allocations, the financial results are not necessarily indicative of the business segments' financial condition and results of operations as if they existed as independent entities. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations, by accessing the capital markets as a collective unit. Net income (loss) by business segment is summarized in the following table.

TABLE 20: Business Segment Net Income Available to Common Shareholders

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Income Statement Data		
Commercial Banking	\$ 142	89
Branch Banking	29	18
Consumer Lending	48	(26)
Investment Advisors	7	9
General Corporate & Other	204	175
Net income	430	265
Less: Net income attributable to noncontrolling interest		
Net income attributable to Bancorp	430	265
Dividends on preferred stock	9	177

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Net income available to common shareholders	\$ 421	88
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Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****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 21: Commercial Banking

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Income Statement Data		
Net interest income (FTE) ^(a)	\$ 352	333
Provision for loan and lease losses	76	152
Noninterest income:		
Corporate banking revenue	93	81
Service charges on deposits	54	50
Other noninterest income	30	44
Noninterest expense:		
Salaries, incentives and benefits	74	58
Other noninterest expense	214	210
Income before taxes	165	88
Applicable income tax expense (benefit) ^{(a) (b)}	23	(1)
Net income	\$ 142	89
Average Balance Sheet Data		
Commercial loans	\$ 40,362	38,022
Demand deposits	14,843	11,981
Interest checking	8,370	8,300
Savings and money market	2,606	2,920
Certificates over \$100,000	1,855	2,039
Foreign office deposits	1,379	1,934

(a) Includes FTE adjustments of \$4 for each of the three months ended **March 31, 2012** and 2011.

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

Net income was \$142 million for the three months ended March 31, 2012, compared to net income of \$89 million for the three months ended March 31, 2011. The increase in net income was primarily driven by a decrease in the provision for loan and lease losses and higher net interest income partially offset by higher noninterest expense.

Net interest income increased \$19 million driven primarily by growth in average commercial and industrial loans and an increase in the FTP credits related to commercial deposits, partially offset by a decline in yields of 12 bps on average commercial loans. Provision for loan and lease losses decreased \$76 million. Net charge-offs as a percent of average loans and leases decreased to 75 bps for 2012 compared to 162 bps for

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2011 largely due to a decrease in net charge-offs on commercial and industrial and commercial mortgage loans and the improvement in credit trends across all commercial loan types.

Noninterest income was relatively flat for the three months ended March 31, 2012 compared to the same period in 2011, as increases in corporate banking revenue were offset by a decrease in other noninterest income. The increase in corporate banking revenue is primarily due to an \$8 million increase in syndication fees and a \$6 million increase in business lending fees. The increase in syndication fees and business lending fees was driven by refinancing activities in the current market environment. The decrease in other noninterest income was primarily driven by an increase in losses recognized on the sale of OREO and loans.

Noninterest expense increased \$20 million compared to the three months ended March 31, 2011 as a result of increases in salaries, incentives and benefits. The increase in salaries, incentives and benefits of \$16 million was primarily the result of increased incentive compensation due to improved production levels. FDIC insurance expense, which is recorded in other noninterest expense, increased \$2 million due to a change in the methodology in determining FDIC insurance premiums to one based on total assets less tangible equity as opposed to the previous method that was based on domestic deposits.

Average commercial loans increased \$2.3 billion compared to the prior year primarily due to average commercial and industrial loans which increased \$4.0 billion as a result of an increase in new loan origination activity. The increase in commercial and industrial loans was partially offset by decreases in average commercial construction and mortgage loans. Average commercial mortgage loans decreased \$752 million due to tighter underwriting standards implemented in prior quarters in an effort to limit exposure to commercial real estate. Average commercial construction loans decreased \$959 million due to run-off from previous suspensions of new non-owner occupied real estate lending.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Average core deposits increased \$2.1 billion compared to 2011. The increase was primarily driven by strong growth in DDAs, which increased \$2.9 billion compared to the prior year. The increase in DDAs was partially offset by decreases in interest bearing deposits of \$808 million as customers opted to maintain their balances in more liquid accounts due to interest rates remaining near historical lows.

Branch Banking

Branch Banking provides a full range of deposit and loan and lease products to individuals and small businesses through 1,315 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. The following table contains selected financial data for the Branch Banking segment.

TABLE 22: Branch Banking

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Income Statement Data		
Net interest income	\$ 335	339
Provision for loan and lease losses	86	116
Noninterest income:		
Service charges on deposits	74	73
Card and processing revenue	60	77
Investment advisory revenue	31	28
Other noninterest income	25	26
Noninterest expense:		
Salaries, incentives and benefits	149	148
Net occupancy and equipment expense	60	59
Card and processing expense	28	28
Other noninterest expense	157	165
Income before taxes	45	27
Applicable income tax expense	16	9
Net income	\$ 29	18
Average Balance Sheet Data		
Consumer loans	\$ 14,815	13,804
Commercial loans	4,611	4,569
Demand deposits	9,297	7,882
Interest checking	9,087	7,548
Savings and money market	22,654	21,786
Other time and certificates - \$100,000 and over	5,668	9,073

Net income increased \$11 million compared to the three months ended March 31, 2011, driven by a decline in the provision for loan and lease losses and a decline in noninterest expense partially offset by a decrease in noninterest income. Net interest income decreased \$4 million compared to the prior year. The primary drivers of the decline include decreases in the FTP credits for DDAs and lower yields on average commercial and consumer loans. These decreases were partially offset by a favorable shift from certificates of deposit to lower cost transaction and savings products, in conjunction with deposit rate cuts, resulting in a decline in interest expense on core deposits of \$35 million compared to 2011 and an increase in average consumer loans.

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Provision for loan and lease losses for the three months ended March 31, 2012 decreased \$30 million compared to the comparable prior year period. The decline in the provision was the result of improved credit trends across all consumer and commercial loan types. Net charge-offs as a percent of average loans and leases decreased to 179 bps for the three months ended March 31, 2012 compared to 256 bps for three months ended March 31, 2011. The decrease is the result of improved credit trends and tighter underwriting standards.

Noninterest income decreased \$14 million compared to the prior year. The decrease was primarily driven by lower card and processing revenue, which declined \$17 million, primarily due to the implementation of the Dodd-Frank Act's debit card interchange fee cap in the fourth quarter of 2011, partially offset by higher debit and credit card transaction volumes and the impact of the Bancorp's initial mitigation activity. The decrease was partially offset by investment advisory revenue which increased \$3 million due to improved market performance.

Noninterest expense decreased \$6 million from the three months ended March 31, 2011, primarily driven by decreases in other noninterest expense, which declined \$8 million primarily due to a decrease in FDIC insurance expense, resulting from the previously mentioned change in methodology used to determine FDIC insurance premiums, partially offset by higher corporate overhead allocations.

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Average consumer loans increased \$1.0 billion in 2012 primarily due to increases in average residential mortgage loans of \$1.4 billion due to the retention of certain portions of originated mortgage loans rather than selling them in the secondary market. The increase in average residential mortgage loans was partially offset by a decrease in average home equity loans of \$507 million due to decreased customer demand and continued tighter underwriting standards. Average commercial loans were flat compared to March 31, 2011.

Average core deposits increased by \$1.1 billion compared to the prior year as the growth in transaction accounts due to excess customer liquidity and historically low interest rates slightly outpaced the run-off of higher priced certificates of deposit.

Consumer Lending

Consumer Lending includes the Bancorp's mortgage, home equity, automobile and other indirect lending activities. Mortgage and home equity lending activities include the origination, retention and servicing of 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 mortgage brokers and automobile dealers. The following table contains selected financial data for the Consumer Lending segment.

TABLE 23: Consumer Lending

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Income Statement Data		
Net interest income	\$ 80	90
Provision for loan and lease losses	54	94
Noninterest income:		
Mortgage banking net revenue	201	99
Other noninterest income	10	15
Noninterest expense:		
Salaries, incentives and benefits	56	44
Other noninterest expense	106	106
Income (loss) before taxes	75	(40)
Applicable income tax expense (benefit)	27	(14)
Net income (loss)	\$ 48	(26)
Average Balance Sheet Data		
Residential mortgage loans	\$ 10,009	9,273
Home equity	672	773
Automobile loans	11,211	10,384
Consumer leases	61	246

Net income was \$48 million for the three months ended March 31, 2012 compared to a net loss of \$26 million for the three months ended March 31, 2011. The increase in net income was driven by an increase in noninterest income and a decline in the provision for loan and lease losses, partially offset by decreases in net interest income and an increase in noninterest expense. Net interest income decreased \$10 million due to lower yields on average automobile loans due to continued competition on new originations, partially offset by increases in average loan balances for residential mortgage and automobile loans.

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Provision for loan and lease losses decreased \$40 million for the three months ended March 31, 2012, as delinquency metrics and underlying loss trends improved across all consumer loan types. Net charge-offs as a percent of average loans and leases decreased to 108 bps for the current quarter compared to 200 bps for the comparable prior year quarter.

Noninterest income increased \$97 million primarily due to increases in mortgage banking net revenue, which increased \$102 million. The increase in mortgage banking net revenue was driven by increased residential mortgage origination activity due to mortgage rates dropping to historical lows during the three months ended March 31, 2012. Additionally, the increase was driven by gains on loan sales of \$112 million due to an increase in profit margins on sold residential mortgage loans coupled with higher origination volumes, partially offset by an increase in MSR amortization expense of \$18 million. Net servicing revenue increased due to an increase in the size of the Bancorp's servicing portfolio.

Noninterest expense increased \$12 million compared to the three months ended March 31, 2011 due to the increase in salaries, incentives and benefits which increased as a result of higher mortgage loan originations in the current quarter than the same quarter in the prior year.

Average consumer loans and leases increased \$1.3 billion compared to the three months ended March 31, 2011. Average automobile loans increased \$827 million due to a strategic focus to increase automobile lending throughout 2011 and for the three months ended March 31, 2012 through consistent and competitive pricing, disciplined sales execution, and enhanced customer service with our dealership network. Average residential mortgage loans increased \$736 million as a result of the higher origination volumes discussed previously. The increases were partially offset by decreases in home equity and consumer leases. Average home equity loans decreased \$101 million due to continued run-off in the discontinued brokered home equity product. Average consumer leases decreased \$185 million due to run-off as the Bancorp discontinued this product in the fourth quarter of 2008.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Investment Advisors**

Investment Advisors provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. Investment Advisors is made up of four main businesses: FTS, an indirect wholly-owned subsidiary of the Bancorp; FTAM, an indirect wholly-owned subsidiary of the Bancorp; 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. FTAM provides asset management services and also advises the Bancorp's proprietary family of mutual funds. Fifth Third Private Bank offers holistic strategies to affluent clients in wealth planning, investing, insurance and wealth protection. Fifth Third Institutional Services provide advisory services for institutional clients including states and municipalities. The following table contains selected financial data for the Investment Advisors segment.

As previously mentioned, the Bancorp entered into two separate agreements in April 2012, to sell certain assets relating to the management of Fifth Third money market funds and 16 mutual funds from FTAM. The transactions are expected to be completed in the third quarter of 2012. The transactions will reduce the money market assets managed by Fifth Third by approximately \$5 billion and will create a new sub-advisory relationship with FTAM and the third-party. The transactions are not expected to have a material impact on the Bancorp's results.

TABLE 24: Investment Advisors

(\$ in millions)	For the three months ended March 31,	
	2012	2011
Income Statement Data		
Net interest income	\$ 27	28
Provision for loan and lease losses	3	5
Noninterest income:		
Investment advisory revenue	94	95
Other noninterest income	3	3
Noninterest expense:		
Salaries, incentives and benefits	44	43
Other noninterest expense	66	64
Income before taxes	11	14
Applicable income tax expense	4	5
Net income	\$ 7	9
Average Balance Sheet Data		
Loans and leases	\$ 1,911	2,130
Core deposits	7,370	6,455

Net income decreased \$2 million compared to the three months ended March 31, 2011 primarily due to a decline in net interest income and an increase in noninterest expense partially offset by a decrease in the provision for loan and lease losses. Net interest income decreased \$1 million from the first quarter of 2011 due to a decline in average loan and lease balances as well as declines in yields on loans and leases.

Provision for loan and leases losses decreased \$2 million from the three months ended March 31, 2011. Net charge-offs as a percent of average loans and leases decreased to 73 bps for the three months ended March 31, 2012 compared to 94 bps for the three months ended March 31, 2011 reflecting moderation of general economic conditions during 2011 and the first quarter of 2012.

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Noninterest income was relatively flat compared to the three months ended March 31, 2011 primarily driven by lower mutual fund fees offset by increased private client services revenue, which reflected an overall increase in market performance.

Noninterest expense increased \$3 million compared to the three months ended March 31, 2011 due to a \$2 million increase in other noninterest expense. The increase is due to an increase of \$5 million in corporate overhead allocations partially offset by decreased FDIC insurance expense of \$2 million.

Average loans and leases decreased \$219 million compared to the three months ended March 31, 2011. The decrease was primarily driven by declines in home equity loans of \$152 million due to tighter underwriting standards. Average core deposits increased \$915 million compared to the three months ended March 31, 2011 due to growth in interest checking as customers have opted to maintain excess funds in liquid transaction accounts as a result of interest rates remaining near historic lows.

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, provision expense in excess of net charge-offs or a benefit from the reduction of the ALLL, representation and warranty expense in excess of actual losses or a benefit from the reduction of representation and warranty reserves, the payment of preferred stock dividends and certain support activities and other items not attributed to the business segments.

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

Results for the three months ended March 31, 2012 and 2011 were impacted by a benefit of \$128 million and \$199 million, respectively, due to reductions in the ALLL. The decrease in provision expense for both periods was due to a decrease in nonperforming assets and improvement in delinquency metrics and underlying loss trends. The change in net income compared to the prior year was impacted by a \$115 million benefit related to the initial public offering of Vantiv, Inc., partially offset by \$24 million in losses related to the equity method income recorded from the Bancorp's ownership interest in Vantiv Holding, LLC. The \$24 million of losses is comprised of \$34 million in charges related to Vantiv Holding, LLC's bank debt refinancing and debt termination charges partially offset by \$10 million in the first quarter equity method income earnings for Vantiv Holding, LLC. The results for the three months ended March 31, 2012 were impacted by dividends on preferred stock of \$9 million compared to \$177 million in the comparable prior year period. In the prior year, the dividends on preferred stock included \$153 million in accretion on the remaining issuance discount on the Series F preferred stock in connection with its redemption on February 2, 2011.

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

RISK MANAGEMENT OVERVIEW

Managing risk is an essential component of successfully operating a financial services company. The Bancorp's risk management approach includes processes for identifying, assessing, managing, monitoring and reporting risks. The ERM division, led by the Bancorp's Chief Risk Officer, and the Bancorp Credit division, led by the Bancorp's Chief Credit Officer, ensure the consistency and adequacy of the Bancorp's risk management approach within the structure of the Bancorp's affiliate operating model. In addition, the Internal Audit division provides an independent assessment of the Bancorp's internal control structure and related systems and processes.

The assumption of risk requires robust and active risk management practices that comprise an integrated and comprehensive set of activities, measures and strategies that apply to the entire organization. The Bancorp has established a Risk Appetite Framework that provides the foundations of corporate risk capacity, risk appetite and risk tolerances. The Bancorp's risk capacity is represented by its available financial resources. Risk capacity sets an absolute limit on risk-assumption in the Bancorp's annual and strategic plans. The Bancorp understands that not all financial resources may persist as viable loss buffers over time. Further, consideration must be given to planned or foreseeable events that would reduce risk capacity. Those factors take the form of capacity adjustments to arrive at an Operating Risk Capacity. Operating Risk Capacity represents the operating risk level the Bancorp can assume while maintaining its solvency standard. The Bancorp's policy currently discounts its Operating Risk Capacity by a minimum of five percent to provide a buffer; as a result, the Bancorp's risk appetite is limited by policy to, at most, 95% of its Operating Risk Capacity.

Economic capital is the amount of unencumbered financial resources required to support the Bancorp's risks. The Bancorp measures economic capital under the assumption that it expects to maintain debt ratings at strong investment grade levels over time. The Bancorp's capital policies require that the Operating Risk Capacity less the aforementioned buffer exceed the calculated economic capital required in its business.

Risk appetite is the aggregate amount of risk the Bancorp is willing to accept in pursuit of its strategic and financial objectives. By establishing boundaries around risk taking and business decisions, and by incorporating the needs and goals of its shareholders, regulators, rating agencies and customers, the Bancorp's risk appetite is aligned with its priorities and goals. Risk tolerance is the maximum amount of risk applicable to each of the eight specific risk categories included in its Enterprise Risk Management Framework. This is expressed primarily in qualitative terms. The Bancorp's risk appetite and risk tolerances are supported by risk targets and risk limits. Those limits are used to monitor the amount of risk assumed at a granular level.

The risks faced by the Bancorp include, but are not limited to, credit, market, liquidity, operational, regulatory compliance, legal, reputational and strategic. Each of these risks is managed through the Bancorp's risk program which includes the following key functions:

Enterprise Risk Management Programs is responsible for developing and overseeing the implementation of risk programs and reporting that facilitate a broad integrated view of risk. The department also leads the continual fostering of a strong risk management culture and the framework, policies and committees that support effective risk governance, including the oversight of Sarbanes-Oxley compliance;

Commercial Credit Risk Management provides safety and soundness within an independent portfolio management framework that supports the Bancorp's commercial loan growth strategies and underwriting practices, ensuring portfolio optimization and appropriate risk controls;

Risk Strategies and Reporting is responsible for quantitative analysis needed to support the commercial dual rating methodology, ALLL methodology and analytics needed to assess credit risk and develop mitigation strategies related to that risk. The department also provides oversight, reporting and monitoring of commercial underwriting and credit administration processes. The Risk Strategies and Reporting department is also responsible for the economic capital program;

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Consumer Credit Risk Management provides safety and soundness within an independent management framework that supports the Bancorp's consumer loan growth strategies, ensuring portfolio optimization, appropriate risk controls and oversight, reporting, and monitoring of underwriting and credit administration processes;

Operational Risk Management works with affiliates and lines of business to maintain processes to monitor and manage all aspects of operational risk, including ensuring consistency in application of operational risk programs;

Bank Protection oversees and manages fraud prevention and detection and provides investigative and recovery services for the Bancorp;

Capital Markets Risk Management is responsible for instituting, monitoring, and reporting appropriate trading limits, monitoring liquidity, interest rate risk and risk tolerances within Treasury, Mortgage, and Capital Markets groups and utilizing a value at risk model for Bancorp market risk exposure;

Regulatory Compliance Risk Management ensures that processes are in place to monitor and comply with federal and state banking regulations, including fiduciary compliance processes. The function also has the responsibility for maintenance of an enterprise-wide compliance framework; and

The ERM division creates and maintains other functions, committees or processes as are necessary to effectively manage risk throughout the Bancorp.

Risk management oversight and governance is provided by the Risk and Compliance Committee of the Board of Directors and through multiple management committees whose membership includes a broad cross-section of line-of-business, affiliate and support

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representatives. The Risk and Compliance Committee of the Board of Directors consists of five outside directors and has the responsibility for the oversight of risk management for the Bancorp, as well as for the Bancorp's overall aggregate risk profile. The Risk and Compliance Committee of the Board of Directors has approved the formation of key management governance committees that are responsible for evaluating risks and controls. The primary committee responsible for the oversight of risk management is the ERMC. Committees accountable to the ERMC, which support the core risk programs, are the Corporate Credit Committee, the Operational Risk Committee, the Management Compliance Committee, the Asset/Liability Committee and the Enterprise Marketing Committee. Other committees accountable to the ERMC oversee the ALLL, capital and community reinvestment act/fair lending functions. There are also new products and initiatives processes applicable to every line of business to ensure an appropriate standard readiness assessment is performed before launching a new product or initiative. Significant risk policies approved by the management governance committees are also reviewed and approved by the Risk and Compliance Committee of the Board of Directors.

Finally, Credit Risk Review is an independent function responsible for evaluating the sufficiency of underwriting, documentation and approval processes for consumer and commercial credits, the accuracy of risk grades assigned to commercial credit exposure, appropriate accounting for charge-offs, and nonaccrual status and specific reserves. Credit Risk Review reports directly to the Risk and Compliance Committee of the Board of Directors and administratively to the Director of Internal Audit.

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 an individual customer default. 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. These practices include conservative exposure and counterparty limits and conservative 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 regular credit examinations 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 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 reserve and take any necessary charge-offs. Fifth Third defines potential problem loans as those rated substandard that do not meet the definition of a nonperforming asset or a restructured loan. See Note 6 of the Notes to the Condensed Consolidated Financial Statements for further information on the Bancorp's credit grade categories, which are derived from standard regulatory rating definitions. The following tables provide a summary of potential problem loans:

TABLE 25: Potential Problem Loans

As of March 31, 2012 (\$ in millions)	Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial	\$ 1,390	1,391	1,739
Commercial mortgage	1,143	1,143	1,145
Commercial construction	163	163	183
Commercial leases	47	47	47
Total	\$ 2,743	2,744	3,114

TABLE 26: Potential Problem Loans

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As of December 31, 2011 (\$ in millions)	Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial	\$ 1,376	1,376	1,744
Commercial mortgage	1,215	1,216	1,223
Commercial construction	239	240	258
Commercial leases	33	33	33
Total	\$ 2,863	2,865	3,258

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 27: Potential Problem Loans**

As of March 31, 2011 (\$ in millions)	Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial	\$ 1,835	1,836	1,852
Commercial mortgage	1,460	1,462	1,463
Commercial construction	322	322	322
Commercial leases	30	30	30
Total	\$ 3,647	3,650	3,667

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 reserve analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system that provides for thirteen probabilities of default grade categories and an additional six 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-grade risk rating system. The Bancorp has completed significant validation and testing of the dual risk rating system and will make a decision on the implementation of the dual risk rating model for purposes of determining the Bancorp's ALLL once the FASB has issued a final standard regarding previously proposed methodology changes to the determination of credit impairment as outlined in the Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities Exposure Draft and Supplementary Document dated May 2010 and January 2011, respectively. Scoring systems, various analytical tools and delinquency monitoring are used to assess the credit risk in the Bancorp's homogenous consumer and small business loan portfolios.

Overview

The economy maintained a moderate recovery throughout 2011 and the first quarter of 2012. Geographically, the Bancorp continues to experience the most stress in Michigan and Florida due to the decline in real estate values. Real estate value deterioration, as measured by the Home Price Index, was most prevalent in Florida due to past real estate price appreciation and related over-development, and in Michigan due in part to cutbacks in automobile manufacturing and the state's economic downturn. Among commercial portfolios, the homebuilder, residential developer and portions of the remaining non-owner occupied commercial real estate portfolios continue to remain under stress.

Among consumer portfolios, residential mortgage and brokered home equity portfolios exhibited the most stress. Management suspended homebuilder and developer lending in the fourth quarter of 2007 and new commercial non-owner occupied real estate lending in the second quarter of 2008, discontinued the origination of brokered home equity products at the end of 2007 and tightened underwriting standards across both the commercial and consumer loan product offerings. Since the fourth quarter of 2008, in an effort to reduce loan exposure to the real estate and construction industries, the Bancorp has sold certain consumer loans and sold or transferred to held for sale certain commercial loans. The Bancorp has continued to aggressively engage in other loss mitigation strategies such as reducing credit commitments, restructuring certain commercial and consumer loans, actively managing underwriting standards on commercial loans and across the consumer loan portfolio, as well as utilizing expanded commercial and consumer loan workout teams. In the financial services industry, there has been heightened focus on foreclosure activity and processes. Fifth Third actively works with borrowers experiencing difficulties and has regularly modified or provided forbearance to borrowers where a workable solution could be found. Foreclosure is a last resort, and the Bancorp undertakes foreclosures only when it believes they are necessary and appropriate and are careful to ensure that customer and loan data are accurate. Reviews of the Bancorp's foreclosure process and procedures conducted in 2010 did not reveal any material deficiencies. These reviews were expanded and extended in 2011 to improve our processes as additional aspects of the industry's foreclosure practices have come under intensified scrutiny and criticism. These reviews are complete and the Bancorp may determine to amend its processes and procedures as a result of these reviews. While any impact to the Bancorp that ultimately results from continued reviews cannot yet be determined, management currently believes that such impact will not materially adversely affect the Bancorp's results of operations, liquidity or capital resources. Additionally, banking regulatory agencies and other federal and state governmental authorities have continued to review the foreclosure process of mortgage servicers such as Fifth Third

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beyond the initial examinations of the largest mortgage servicers they conducted over the past 18 months. These ongoing reviews and issues have been settled with the largest mortgage servicers, the state attorney generals and various regulators. We are reviewing the settlements in conjunction with Fifth Third's business process and continue to monitor the situation as it evolves.

Commercial Portfolio

The Bancorp's credit risk management strategy includes minimizing 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 origination policies for commercial real estate outline the risks and underwriting requirements for owner and non-owner 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) and sensitivity and pro-forma analysis requirements. 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

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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. In addition, the Bancorp applies incremental valuation haircuts to older appraisals that relate to collateral dependent loans, which can currently be up to 25-40% of the appraised value based on the type of collateral. These incremental valuation haircuts generally reflect the age of the most recent appraisal as well as collateral type. Trends in collateral values, such as home price indices and recent asset dispositions, are monitored in order to determine whether adjustments to the appraisal haircuts are warranted. Other factors such as local market conditions or location may also be considered as necessary.

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 table provides 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 28: Commercial Mortgage Loans Outstanding by LTV, Loans Greater Than \$1 Million

As of March 31, 2012 (\$ in millions)	LTV > 100%	LTV 80-100%	LTV ≤ 80%
Commercial mortgage owner-occupied loans	\$ 445	359	2,385
Commercial mortgage nonowner-occupied loans	569	644	2,125
Total	\$ 1,014	1,003	4,510

The following table provides detail on commercial loan 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.

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As of March 31 (\$ in millions)	Outstanding	2012 Exposure	Nonaccrual	Outstanding	2011 Exposure	Nonaccrual
By industry:						
Manufacturing	\$ 9,359	17,329	106	\$ 7,392	14,732	117
Real estate	6,317	7,045	279	8,090	9,281	345
Financial services and insurance	4,771	10,449	53	3,782	8,423	65
Business services	4,015	6,216	65	3,397	5,253	67
Wholesale trade	3,858	6,904	42	3,059	5,709	76
Healthcare	3,503	5,268	18	3,406	5,123	29
Transportation and warehousing	2,670	3,551	12	2,043	2,537	14
Retail trade	2,439	5,535	47	2,379	5,300	49
Construction	2,133	3,321	184	2,611	3,868	224
Communication and information	1,259	2,132	3	1,061	1,688	7
Mining	1,173	2,113	7	912	1,647	
Accommodation and food	1,129	1,733	18	1,026	1,579	61
Other services	995	1,458	45	1,078	1,457	44
Entertainment and recreation	925	1,283	18	794	1,044	18
Utilities	647	1,953		604	1,684	
Public administration	436	703		619	825	4
Individuals	431	477	20	418	473	8
Agribusiness	416	562	71	445	570	81
Other	1	2		85	149	2
Total	\$ 46,477	78,034	988	\$ 43,201	71,342	1,211
By loan size:						
Less than \$200,000	2%	2	7	3%	2	7
\$200,000 to \$1 million	7	6	22	10	7	24
\$1 million to \$5 million	18	14	33	21	17	30
\$5 million to \$10 million	12	10	15	13	11	9
\$10 million to \$25 million	27	24	20	26	26	25
Greater than \$25 million	34	44	3	27	37	5
Total	100%	100	100	100%	100	100
By state:						
Ohio	23%	26	17	25%	29	15
Michigan	13	11	22	15	13	21
Florida	8	6	16	8	7	16
Illinois	7	8	12	8	8	13
Indiana	5	5	9	6	6	8
Kentucky	4	4	4	5	4	4
North Carolina	3	3	4	3	3	3
Tennessee	3	3	3	3	3	1
Pennsylvania	2	2	1	2	2	2
All other states	32	32	12	25	25	17

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Total	100%	100	100	100%	100	100
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The Bancorp has identified certain categories of loans which it believes represent a higher level of risk compared to the rest of the Bancorp's loan portfolio, due to economic or market conditions within the Bancorp's key lending areas. The following table provides analysis of each of the categories of loans (excluding loans held for sale) by state as of March 31, 2012 and 2011.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 30: Non-Owner Occupied Commercial Real Estate**

	\$xxxx.xx	\$xxxx.xx	\$xxxx.xx	\$xxxx.xx	\$xxxx.xx
As of March 31, 2012 (\$ in millions)					For the three months ended March 31, 2012
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
Ohio	\$ 1,855	2,029	1	87	4
Michigan	1,353	1,379		76	13
Florida	673	706		56	11
Illinois	405	445		48	4
Indiana	295	298		13	
North Carolina	278	311		21	2
All other states	594	624		31	
Total	\$ 5,453	5,792	1	332	34

TABLE 31: Non-Owner Occupied Commercial Real Estate

	\$xxxx.xx	\$xxxx.xx	\$xxxx.xx	\$xxxx.xx	\$xxxx.xx
As of March 31, 2011 (\$ in millions)					For the three months ended March 31, 2011
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
Ohio	\$ 2,232	2,494	24	93	24
Michigan	1,627	1,736		72	11
Florida	930	985	2	105	5
Illinois	498	583		60	10
Indiana	375	438		22	2
North Carolina	359	410	1	31	1
All other states	677	747		28	6
Total	\$ 6,698	7,393	27	411	59

TABLE 32: Home Builder and Developer (a)

	\$xxx.xx	\$xxx.xx	\$xxx.xx	\$xxx.xx	\$xxx.xx
As of March 31, 2012 (\$ in millions)					For the three months ended March 31, 2012
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
Ohio	\$ 132	196	1	12	4
Michigan	82	105		5	5

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Florida	51	68	16	9
North Carolina	43	47	9	
Indiana	50	54	10	
Illinois	13	23	11	3
All other states	52	62	11	
Total	\$ 423	555	1	74

(a) *Home Builder and Developer loans, exclusive of commercial and industrial loans with an outstanding balance of \$100 and a total exposure of \$186 are also included in Table 30: Non-Owner Occupied Commercial Real Estate.*

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 33: Home Builder and Developer (a)**

As of March 31, 2011 (\$ in millions)	For the three months ended March 31, 2011				
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
Ohio	\$ 189	278		31	13
Michigan	146	190		16	2
Florida	97	109		37	3
North Carolina	66	80		13	
Indiana	59	75		11	
Illinois	29	50		11	1
All other states	65	89	1	11	3
Total	\$ 651	871	1	130	22

(a) Home Builder and Developer loans, exclusive of commercial and industrial loans with an outstanding balance of \$131 and a total exposure of \$257 are also included in Table 31: Non-Owner Occupied Commercial Real Estate.

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Consumer Portfolio**

The Bancorp's consumer portfolio is materially comprised of three categories of loans: residential mortgage, home equity, and automobile. The Bancorp has identified certain categories within these loan types which it believes represent a higher level of risk compared to the rest of the consumer loan portfolio due to high loan amount to collateral value. 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.

Residential Mortgage Portfolio

The Bancorp manages credit risk in the mortgage portfolio through conservative underwriting and documentation standards and geographic and product diversification. The Bancorp may also package and sell loans in the portfolio or may purchase mortgage insurance for the loans sold in order to mitigate credit risk.

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 and adjustable rate residential mortgage loans. Resets of rates on adjustable rate mortgages are not expected to have a material impact on credit costs in the current interest rate environment, as approximately \$1.1 billion of adjustable rate residential mortgage loans will have rate resets during the next twelve months, with approximately one percent of those resets expected to experience an increase in monthly payments in comparison to the monthly payment at the time of origination.

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 an LTV greater than 80% and interest-only loans. The Bancorp monitors residential mortgage loans with greater than 80% LTV ratio and no mortgage insurance as it believes these loans represent a higher level of risk. The following table provides an analysis of the residential mortgage portfolio loans outstanding, excluding held for sale, by LTV at origination:

TABLE 34: Residential Mortgage Portfolio Loans by LTV at Origination

(\$ in millions)	March 31, 2012		December 31, 2011		March 31, 2011	
	Outstanding	Weighted Average LTV's	Outstanding	Weighted Average LTV's	Outstanding	Weighted Average LTV's
LTV ≤ 80%	\$ 8,252	66.4%	7,876	66.6%	6,961	67.5%
LTV > 80%, with mortgage insurance	1,102	93.3	1,030	92.7	900	93.1
LTV > 80%, no mortgage insurance	1,740	95.7	1,766	95.6	1,669	95.5
Total	\$ 11,094	73.7%	10,672	73.9%	9,530	74.9%

The following tables provide analysis of the residential mortgage portfolio loans outstanding, excluding held for sale, with a greater than 80% LTV ratio and no mortgage insurance as of March 31, 2012 and 2011:

TABLE 35: Residential Mortgage Portfolio Loans, LTV Greater Than 80%, No Mortgage Insurance

As of March 31, 2012 (\$ in millions)	For the three months ended March 31, 2012	
By State:	Outstanding	Nonaccrual

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		90 Days Past Due		Net Charge-offs
Ohio	\$ 598	3	25	4
Michigan	307	1	14	3
Florida	257	1	19	4
North Carolina	113	2	5	1
Illinois	134	1	3	1
Indiana	109	1	2	
Kentucky	86	1	3	
All other states	136	1	4	1
Total	\$ 1,740	11	75	14

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 36: Residential Mortgage Loans Outstanding, LTV Greater Than 80%, No Mortgage Insurance**

As of March 31, 2011 (\$ in millions)				For the three months ended March 31, 2011
By State:	Outstanding	90 Days Past Due	Nonaccrual	Net Charge-offs
Ohio	\$ 576	4	25	4
Michigan	299	1	16	5
Florida	284	4	25	12
North Carolina	125	3	4	1
Indiana	112	1	4	1
Kentucky	77	1	3	
Illinois	77	1	1	
All other states	119	1	4	2
Total	\$ 1,669	16	82	25

Home Equity Portfolio

The Bancorp's home equity portfolio is primarily comprised of home equity lines of credit. The home equity line of credit offered by the Bancorp is a revolving facility with a 20-year term, minimum payments of interest only and a balloon payment of principal at maturity.

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 determined on a single homogenous pool basis reflecting the Bancorp's belief that the credit risk characteristics of this portfolio are of sufficient similarity such that additional portfolio segmentation is not necessary for determining 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, 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, refreshed FICO score trends and product mix. The qualitative factors include adjustments for credit administration and portfolio management, credit policy and underwriting and the national and local economy. The Bancorp considers home price index trends when determining the national and local economy qualitative factor.

The home equity portfolio is managed in two primary categories: loans outstanding with a LTV greater than 80% and those loans with a LTV 80% or less based upon appraisals at origination. The carrying value of the greater than 80% LTV home equity loans and 80% or less LTV home equity loans were \$3.9 billion and \$6.6 billion, respectively, as of March 31, 2012. Of the total \$10.5 billion of outstanding home equity loans:

82% reside within the Bancorp's Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois

31% are in first lien positions and 69% are in second lien positions at March 31, 2012

For approximately 1/3 of the home equity portfolio in a second lien position, the first lien is either owned or serviced by the Bancorp

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Over 80% of non-delinquent borrowers made at least one payment greater than the minimum payment during the three months ended March 31, 2012

The portfolio had an average refreshed FICO score of 734 and 732 at March 31, 2012 and 2011, respectively.

The Bancorp actively manages lines of credit and makes reductions 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 on-going credit monitoring processes. For second lien home equity loans, the Bancorp is unable to track the performance of the first lien loans if it does not service the first lien loan, but instead monitors the refreshed FICO scores as part of its assessment of the home equity portfolio. The following table provides an analysis of home equity loans outstanding disaggregated based upon refreshed FICO score:

Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****TABLE 37: Home Equity Loans Outstanding by Refreshed FICO Score**

(\$ in millions)	March 31, 2012		December 31, 2011		March 31, 2011	
	Outstanding	% of Total	Outstanding	% of Total	Outstanding	% of Total
First Liens:						
FICO < 620	\$ 238	2%	214	2%	266	2%
FICO 621-719	673	6	643	6	675	6
FICO > 720	2,392	23	2,466	23	2,469	22
Total First Liens	3,303	31	3,323	31	3,410	30
Second Liens:						
FICO < 620	739	7%	750	7%	869	8%