FIFTH THIRD BANCORP
Form 10-Q
August 08, 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 June 30, 2012

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

Ohio	**31-0854434**

(State or other jurisdiction	**(I.R.S. Employer**
of incorporation or organization)	**Identification Number)**

Fifth Third Center

Cincinnati, Ohio 45263

(Address of principal executive offices)

Registrant s telephone number, including area code: (800) 972-3030

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x	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 x

There were 918,913,253 shares of the Registrant s common stock, without par value, outstanding as of June 30, 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 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

ALLL: Allowance for Loan and Lease Losses

AOCI: Accumulated Other Comprehensive Income

ARM: Adjustable Rate Mortgage

ATM: Automated Teller Machine

BOLI: Bank Owned Life Insurance

bp: Basis point(s)

CCAR: Comprehensive Capital Analysis and Review

CDC: Fifth Third Community Development Corporation

CFPB: United States Consumer Financial Protection Bureau

C&I: Commercial and Industrial

DCF: Discounted Cash Flow

DDAs: Demand Deposit Accounts

ERISA: Employee Retirement Income Security Act

ERM: Enterprise Risk Management

ERMC: Enterprise Risk Management Committee

EVE: Economic Value of Equity

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

FHLB: Federal Home Loan Bank

FHLMC: Federal Home Loan Mortgage Corporation

HAMP: Home Affordable Modification Program

HARP: Home Affordable Refinance Program

HFS: Held for Sale

IFRS: International Financial Reporting Standards

IPO: Initial Public Offering

IRC: Internal Revenue Code

IRLC: Interest Rate Lock Commitment

IRS: Internal Revenue Service

LIBOR: London InterBank Offered Rate

LLC: Limited Liability Company

LTV: Loan-to-Value

MD&A: Management s Discussion and Analysis of Financial Condition and Results of Operations

MSR: Mortgage Servicing Right

NII: Net Interest Income

NM: Not Meaningful

OCI: Other Comprehensive Income

OREO: Other Real Estate Owned

OTTI: Other-Than-Temporary Impairment

PMI: Private Mortgage Insurance

SEC: United States Securities and Exchange Commission

TARP: Troubled Asset Relief Program

FICO: Fair Isaac Corporation (credit rating)

FNMA: Federal National Mortgage Association

FRB: Federal Reserve Bank

FTAM: Fifth Third Asset Management, Inc.

FTE: Fully Taxable Equivalent

FTP: Funds Transfer Pricing

FTS: Fifth Third Securities

GNMA: Government National Mortgage Association

GSE: Government Sponsored Enterprise

TBA: To Be Announced

TDR: Troubled Debt Restructuring

TruPS: Trust Preferred Securities

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

VIE: Variable Interest Entity

VRDN: Variable Rate Demand Note

U.S.: United States of America

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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 June 30, 2012	2011	% Change	For the six months ended June 30, 2012	2011	% Change
Income Statement Data						
Net interest income[(a)]	**$ 899**	869	3	**$ 1,802**	1,752	3
Noninterest income	**678**	656	3	**1,448**	1,240	17
Total revenue[(a)]	**1,577**	1,525	3	**3,250**	2,992	9
Provision for loan and lease losses	**71**	113	(37)	**162**	281	(42)
Noninterest expense	**937**	901	4	**1,911**	1,819	5
Net income attributable to Bancorp	**385**	337	14	**815**	602	35
Net income available to common shareholders	**376**	328	15	**797**	417	91
Common Share Data						
Earnings per share, basic	**$0.41**	0.36	14	**$ 0.87**	0.46	89
Earnings per share, diluted	**0.40**	0.35	14	**0.85**	0.46	85
Cash dividends per common share	**0.08**	0.06	33	**0.16**	0.12	33
Book value per share	**14.56**	13.23	10	**14.56**	13.23	10
Market value per share	**13.40**	12.75	5	**13.40**	12.75	5
Financial Ratios (%)						
Return on assets	**1.32 %**	1.22	8	**1.40 %**	1.09	28
Return on average common equity	**11.4**	11.0	4	**12.2**	7.2	69
Dividend payout ratio	**19.5**	16.7	17	**18.4**	26.1	(30)
Average equity as a percent of average assets	**11.58**	11.12	4	**11.54**	11.44	1
Tangible common equity[(b)]	**9.15**	8.64	6	**9.15**	8.64	6
Net interest margin[(a)]	**3.56**	3.62	(2)	**3.59**	3.66	(2)
Efficiency[(a)]	**59.4**	59.1	1	**58.8**	60.8	(3)
Credit Quality						
Net losses charged off	**$ 181**	304	(40)	**$ 401**	671	(40)
Net losses charged off as a percent of average loans and leases	**0.88 %**	1.56	(44)	**0.98 %**	1.74	(44)
ALLL as a percent of loans and leases	**2.45**	3.35	(27)	**2.45**	3.35	(27)
Allowance for credit losses as a percent of loans and leases[(c)]	**2.66**	3.61	(26)	**2.66**	3.61	(26)
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned[(d)]	**1.96**	2.66	(26)	**1.96**	2.66	(26)
Average Balances						
Loans and leases, including held for sale	**$84,508**	79,153	7	**$ 84,132**	79,265	6
Total securities and other short-term investments	**17,168**	17,192		**16,952**	17,241	(2)
Total assets	**117,654**	111,200	6	**116,989**	111,023	5
Transaction deposits[(e)]	**77,621**	71,506	9	**77,378**	70,838	9
Core deposits[(f)]	**81,980**	78,244	5	**81,833**	77,887	5

Wholesale funding[g]	**17,533**	16,433	7	**17,065**	16,430	4
Bancorp shareholders equity	**13,628**	12,365	10	**13,497**	12,706	6
Regulatory Capital Ratios (%)						
Tier I risk-based capital	**12.31 %**	11.93	3	**12.31 %**	11.93	3
Total risk-based capital	**16.24**	16.03	1	**16.24**	16.03	1
Tier I leverage	**11.39**	11.03	3	**11.39**	11.03	3
Tier I common equity[b]	**9.77**	9.20	6	**9.77**	9.20	6

(a) *Amounts presented on an FTE basis. The FTE adjustment for the three months ended **June 30, 2012** and 2011 was **$4** and $5, respectively, and for the six months ended **June 30, 2012** and 2011 was **$9**.*

(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 June 30, 2012, the Bancorp had $117.5 billion in assets, operated 15 affiliates with 1,322 full-service Banking Centers, including 105 Bank Mart® locations open seven days a week inside select grocery stores, and 2,409 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.

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 June 30, 2012, net interest income, on an FTE basis, and noninterest income provided 57% and 43% 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, net occupancy expenses, and technology and communications costs.

Senior Notes Offerings

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 until 30 days prior to maturity. For additional information regarding long-term debt, see Note 11 of the Notes to the Condensed Consolidated Financial Statements.

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

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 TruPS; and the repurchase of common shares in an amount equal to any after-tax gains realized by the Bancorp from the sale of Vantiv, Inc. common shares by either the Bancorp or Vantiv, Inc.

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. The Bancorp resubmitted its capital plan to the FRB on June 8, 2012 and expects to receive a response within approximately 75 days of the resubmission date. The resubmitted plan included capital actions and distributions for the covered period through March 31, 2013 that were substantially similar to those included in the original submission, with adjustments primarily reflecting the change in the expected timing of capital actions and distributions relative to the timing assumed in the original submission.

Accelerated Share Repurchase

Based upon the FRB s indication that it did not object to certain capital actions submitted by the Bancorp as part of the 2012 CCAR, on April 23, 2012, the Bancorp entered into an accelerated share repurchase transaction with a counterparty pursuant to which the Bancorp purchased 4,838,710 shares or approximately $75 million of its outstanding common stock on April 26, 2012. As part of this transaction, the Bancorp entered into a forward contract in which the final number of shares delivered at settlement of the accelerated share repurchase transaction was based on a discount to the average daily volume-weighted average price of the Bancorp s common stock during the term of the Repurchase Agreement. The accelerated share repurchase was treated as two separate transactions (i) the acquisition of treasury shares on the acquisition date and (ii) a forward contract indexed to the Bancorp s stock. At settlement of the forward contract on June 1, 2012, the Bancorp received an additional 631,986 shares which were recorded as an adjustment to the basis in the treasury shares purchased on the acquisition date.

Redemption of TruPS

In connection with the 2012 CCAR results, on July 2, 2012, the Bancorp announced that it submitted redemption notices to the trustee for redemption on August 15, 2012, of all $575 million of the outstanding TruPS issued by Fifth Third Capital Trust V. The Fifth Third Capital Trust V securities have a current distribution rate of 7.25% and a scheduled maturity date of August 15, 2067, although they may be redeemed at any time on or after August 15, 2012. The redemption price will be $25 per security, which reflects 100% of the liquidation amount, plus accrued and unpaid distributions to the actual redemption date of $0.453125 per security. The Bancorp will recognize an estimated loss on extinguishment of $17 million of these TruPS on August 15, 2012 which will be reflected in the Bancorp s Condensed Consolidated Financial Statements for the quarter ending September 30, 2012.

Additionally, on August 8, 2012, the Bancorp redeemed all $862.5 million of the outstanding TruPS issued by Fifth Third Capital Trust VI. The Bancorp had previously announced on July 9, 2012, that it had submitted redemption notices to the trustee for redemption of the outstanding TruPS issued by Fifth Third Capital Trust VI with a distribution rate at redemption of 7.25% and a scheduled maturity date of November 15, 2067. The redemption price was $25 per security, which reflected 100% of the liquidation amount, plus accrued and unpaid distributions through the actual redemption date of $0.422917 per security. The Bancorp recognized a $9 million loss on extinguishment of these TruPS on August 8, 2012 which will be reflected in the Bancorp s Condensed Consolidated Financial Statements for the quarter ending September 30, 2012. The redemptions were funded with available cash.

See Note 21 of the Notes to Condensed Consolidated Financial Statements for further information.

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 the recognition of a pre-tax gain of $115 million ($75 million after-tax) by the Bancorp in the first quarter of 2012.

As of June 30, 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.

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

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 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.

In December of 2010 and revised in June of 2011, the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. In June of 2012, U.S. banking regulators proposed enhancements to the regulatory capital requirements for U.S. banks, which implement aspects of Basel III, such as re-defining the regulatory capital elements and minimum capital ratios, introducing regulatory capital buffers above those minimums, revising the agencies rules for calculating risk-weighted assets and introducing a new Tier I common equity ratio. The Bancorp continues to evaluate these proposals and their potential impact. For more information on the impact of the proposed regulatory capital enhancements, refer to the Capital Management section of the MD&A.

Earnings Summary

The Bancorp s net income available to common shareholders for the second quarter of 2012 was $376 million, or $0.40 per diluted share, which was net of $9 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the second quarter of 2011 was $328 million, or $0.35 per diluted share, which was net of $9 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the six months ended June 30, 2012 was $797 million, or $0.85 per diluted share, which was net of $18 million in preferred stock dividends. For the six months ended June 30, 2011, the Bancorp s net income available to common shareholders was $417 million, or $0.46 per diluted share, which was net of $185 million in preferred stock dividends. The preferred stock dividends for the six months ended June 30, 2011 included $153 million in discount accretion resulting from the Bancorp s repurchase of Series F preferred stock.

Net interest income increased three percent to $899 million for the quarter ended June 30, 2012 compared to $869 million in the second quarter of 2011. Net interest income in the second quarter of 2012 was positively impacted by a $5.4 billion increase in average loans and leases, a 27 bp decrease in the average rate paid on interest-bearing liabilities compared to the second 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 income was $1.8 billion for the six months ended June 30, 2012 and 2011. Net interest income in the first half of 2012 was positively impacted by a $4.9 billion increase in average loans and leases and a 25 bp decrease in the average rate paid on interest-bearing liabilities compared to the six months ended June 30, 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 3.56% and 3.59% for the three and six months ended June 30, 2012, respectively, compared to 3.62% and 3.66% for the same periods in the prior year.

Noninterest income increased $22 million, or three percent, in the second quarter of 2012 compared to the same period in the prior year. The increase from the second quarter of 2011 was primarily due to an increase in mortgage banking net revenue and other noninterest income partially offset by a decrease in card and processing revenue. Mortgage banking net revenue increased $21 million, or 13%, primarily due to an increase in origination fees and gains on loan sales partially offset by an increase in losses on net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge the MSR portfolio. Other noninterest income increased $20 million, or 25%, primarily due to an increase in positive valuation adjustments on the Vantiv, Inc. warrants. These impacts were partially offset by a $25 million decrease in card and processing revenue primarily as a result of the implementation of the Durbin Amendment. Noninterest income increased $208 million, or 17%, for the six months ended June 30, 2012 compared to the same period in 2011. The increase from the first half of 2011 was primarily due to an increase in mortgage banking net revenue and other noninterest income partially offset by a decrease in card and processing revenue. Mortgage banking net revenue increased $123 million, or 47%, primarily due to an increase in origination fees and gains on loan sales partially offset by an increase in losses on net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge the MSR portfolio. Other noninterest income increased $115 million, or 71%, primarily due to a $115 million gain from the Vantiv, Inc. IPO. These impacts were partially offset by a $47 million decrease in card and processing revenue primarily as a result of the implementation of the Durbin Amendment.

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

Noninterest expense increased $36 million, or four percent, in the second quarter of 2012 and increased $92 million, or five percent, for the six months ended June 30, 2012 compared to the same periods in 2011. The increase for both periods was primarily due to increases of $33 million and $95 million, respectively, in total personnel costs.

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 Michigan 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 $71 million and $162 million for the three and six months ended June 30, 2012 compared to $113 million and $281 million, respectively, for the same periods in 2011. In addition, net charge-offs as a percent of average loans and leases decreased to 0.88% during the second quarter of 2012 compared to 1.56% during the second quarter of 2011 and decreased to 0.98% for the six months ended June 30, 2012 compared to 1.74% for the six months ended June 30, 2011. At June 30, 2012, nonperforming assets as a percent of loans, leases and other assets, including OREO (excluding nonaccrual loans held for sale) decreased to 1.96%, compared to 2.23% at December 31, 2011 and 2.66% at June 30, 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 June 30, 2012, the Tier I risk-based capital ratio was 12.31%, the Tier I leverage ratio was 11.39% and the total risk-based capital ratio was 16.24%.

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.

Pre-provision net revenue is net interest income plus noninterest income minus noninterest expense. 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:

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

TABLE 2: Non-GAAP Financial Measures

($ in millions)	June 30, 2012	December 31, 2011	June 30, 2011
Income before income taxes (U.S. GAAP)	**$ 565**	418	506
Add: Provision expense (U.S. GAAP)	**71**	55	113
Pre-provision net revenue	**636**	473	619
Net income available to common shareholders (U.S. GAAP)	**$ 376**	305	328
Add: Intangible amortization, net of tax	**2**	3	4
Tangible net income available to common shareholders	**378**	308	332
Total Bancorp shareholders equity (U.S. GAAP)	**$ 13,773**	13,201	12,572
Less: Preferred stock	**(398)**	(398)	(398)
Goodwill	**(2,417)**	(2,417)	(2,417)
Intangible assets	**(33)**	(40)	(49)
Tangible common equity, including unrealized gains / losses	**10,925**	10,346	9,708
Less: Accumulated other comprehensive income	**(454)**	(470)	(396)
Tangible common equity, excluding unrealized gains / losses (1)	**10,471**	9,876	9,312
Add: Preferred stock	**398**	398	398
Tangible equity (2)	**$ 10,869**	10,274	9,710
Total assets (U.S. GAAP)	**$ 117,543**	116,967	110,805
Less: Goodwill	**(2,417)**	(2,417)	(2,417)
Intangible assets	**(33)**	(40)	(49)
Accumulated other comprehensive income, before tax	**(698)**	(723)	(609)
Tangible assets, excluding unrealized gains / losses (3)	**$ 114,395**	113,787	107,730
Total Bancorp shareholders equity (U.S. GAAP)	**$ 13,773**	13,201	12,572
Less: Goodwill and certain other intangibles	**(2,512)**	(2,514)	(2,536)
Accumulated other comprehensive income	**(454)**	(470)	(396)
Add: Qualifying trust preferred securities	**2,248**	2,248	2,312
Other	**38**	38	20
Tier I risk-based capital	**13,093**	12,503	11,972
Less: Preferred stock	**(398)**	(398)	(398)
Qualifying TruPS	**(2,248)**	(2,248)	(2,312)
Qualified noncontrolling interests in consolidated subsidiaries	**(51)**	(50)	(30)
Tier I common equity (4)	**$ 10,396**	9,807	9,232
Risk-weighted assets (5) [(a)]	**$ 106,398**	104,945	100,320

Ratios:			
Tangible equity (2) / (3)	**9.50 %**	9.03	9.01
Tangible common equity (1) / (3)	**9.15 %**	8.68	8.64
Tier I common equity (4) / (5)	**9.77 %**	9.35	9.20

(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 six months ended June 30, 2012.

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 yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is typically greater than net interest rate spread due to the interest income earned on those assets that are funded by noninterest-bearing liabilities, or free funding, such as demand deposits or shareholders equity.

Tables 3 and 4 present the components of net interest income, net interest margin and net interest rate spread for the three and six months ended June 30, 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 $899 million for the second quarter of 2012, an increase of $30 million compared to the second quarter of 2011. Net interest income was $1.8 billion for the six months ended June 30, 2012, an increase of $50 million from the six months ended June 30, 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 $11 million and $19 million during the three and six months ended June 30, 2012, respectively, compared to $10 million and $23 million during the three and six months ended June 30, 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 $8 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 and six months ended June 30, 2012, net interest income was positively impacted by an increase in average loans and leases of $5.4 billion and $4.9 billion, respectively, as well as a decrease in interest expense compared to the same periods in 2011. These benefits were partially offset by lower yields on the Bancorp s interest-earning assets. The increase in average loans and leases for both periods was driven primarily by increases in commercial and industrial loans and residential mortgage loans compared to the same periods in 2011. The decrease in interest expense for the three and six months ended June 30, 2012 was primarily the result of decreases in the rates paid on interest bearing liabilities of 27 bp and 25 bp, respectively, compared to the same periods in 2011, coupled with a continued mix shift to lower cost core deposits. For the three and six months ended June 30, 2012, the net interest rate spread decreased to 3.35% and 3.37%, respectively, from 3.37% and 3.41% in the same periods in 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 in both periods when compared to the same periods in 2011.

Net interest margin was 3.56% and 3.59% for the three and six months ended June 30, 2012, respectively, compared to 3.62% and 3.66% for the three and six months ended June 30, 2011, respectively. 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 4 bp and 3 bp during the three and six months ended June 30, 2012, respectively, compared to a 4 bp and 8 bp increase during the three and six months ended June 30, 2011. Exclusive of these amounts, net interest margin decreased 6 bp and 2 bp for the three and six months ended June 30, 2012 compared to the same periods in the prior year. The decrease from both periods in 2011 was driven primarily by 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, the decline in rates paid on interest bearing liabilities and an increase in free funding balances.

Total average interest-earning assets for the three and six months ended June 30, 2012 increased six percent and five percent, respectively, compared to the three and six months ended June 30, 2011. The increase from the three and six months ended June 30, 2011 was primarily the result of an increase of 17% and 16%, respectively, in average commercial and industrial loans and an increase of 23% and 21%, respectively, in average residential mortgage loans. For more information on the Bancorp s loan and lease portfolio, see the Loans and Leases section of the

Balance Sheet analysis of MD&A.

Interest income from loans and leases decreased $2 million compared to the second quarter of 2011 and $13 million, or one percent, compared to the six months ended June 30, 2011. The decrease from the three months and six months ended June 30, 2011 was primarily the result of a decrease of 28 bp and 31 bp, respectively, in average loan yields partially offset by an increase of seven percent and six percent, respectively, in average loans. Interest income from investment securities and short-term investments decreased $17 million, or 11%, compared to the three months ended June 30, 2011 primarily as the result of a 49 bp decrease in the average yield on taxable securities. Interest income from investment securities and short-term investments decreased $25 million, or eight percent, compared to the six months ended June 30, 2011 primarily due to a 38 bp decrease in the average yield on taxable securities.

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

Average core deposits increased $3.7 billion, or five percent, compared to the second quarter of 2011 and increased $3.9 billion, or five percent, compared to the six months ended June 30, 2011. The increase from both periods was 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 other time deposits. The cost of average core deposits decreased to 21 bp and 22 bp for the three and six months ended June 30, 2012, respectively, from 39 bp and 42 bp for the three and six months ended June 30, 2011. 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 decreases of 14 bp and 18 bp in the rate paid on average savings deposits and decreases of 80 bp and 77 bp on average other time deposits compared to the three and six months ended June 30, 2011, respectively.

For the three months ended June 30, 2012, interest expense on wholesale funding decreased $15 million, or 14%, compared to the three months ended June 30, 2011 primarily as a result of an $825 million decrease in average certificates $100,000 and over and a $858 million decrease in long-term debt. In addition, the rate paid on average certificates $100,000 and over decreased by 55 bp. During the six months ended June 30, 2012, interest expense on wholesale funding decreased $16 million, or eight percent, compared to the six months ended June 30, 2011 as a result of a $936 million decrease in rates paid on average certificates $100,000 and over, a $670 million decrease in long-term debt and a 50 bp decrease in rates paid on average certificates $100,000 and over partially offset by a 21 bp increase in the rate paid on long-term debt. During the three and six months ended June 30, 2012, wholesale funding represented 24% and 23%, respectively, of interest bearing liabilities compared to 23% during the three and six months ended June 30, 2011. 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.

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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	June 30, 2012			June 30, 2011			Attribution of Change in Net Interest Income *(a)*		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield Rate	Average Balance	Revenue/ Cost	Average Yield Rate	Volume	Yield/Rate	Total
Assets									
Interest-earning assets:									
Loans and leases:[b]									
Commercial and industrial loans	$ 32,770	$ 337	4.13 %	$ 27,970	$ 304	4.35 %	$ 49	(16)	33
Commercial mortgage	9,873	93	3.81	10,491	105	4.00	(7)	(5)	(12)
Commercial construction	886	7	3.05	1,950	15	3.01	(8)		(8)
Commercial leases	3,471	32	3.68	3,349	34	4.06	1	(3)	(2)
Subtotal commercial	47,000	469	4.01	43,760	458	4.19	35	(24)	11
Residential mortgage loans	13,059	134	4.12	10,655	120	4.54	26	(12)	14
Home equity	10,430	98	3.80	11,144	109	3.91	(8)	(3)	(11)
Automobile loans	11,755	110	3.76	11,188	134	4.81	6	(30)	(24)
Credit card	1,915	47	9.92	1,834	45	9.91	2		2
Other consumer loans/leases	349	37	42.87	572	31	22.02	(15)	21	6
Subtotal consumer	37,508	426	4.57	35,393	439	4.99	11	(24)	(13)
Total loans and leases	84,508	895	4.26	79,153	897	4.54	46	(48)	(2)
Securities:									
Taxable	15,548	134	3.48	15,115	150	3.97	3	(19)	(16)
Exempt from income taxes[b]	62	1	5.02	96	2	6.41	(1)		(1)
Other short-term investments	1,558	1	0.24	1,981	1	0.25			
Total interest-earning assets	101,676	1,031	4.08	96,345	1,050	4.37	48	(67)	(19)
Cash and due from banks	2,264			2,356					
Other assets	15,835			15,298					
Allowance for loan and lease losses	(2,121)			(2,799)					
Total assets	$ 117,654			$ 111,200					
Liabilities and Equity									
Interest-bearing liabilities:									
Interest checking	$ 23,548	$ 12	0.22 %	$ 18,701	$ 12	0.26 %	$ 2	(2)	
Savings	22,143	11	0.19	21,817	18	0.33	1	(8)	(7)
Money market	4,258	2	0.22	5,009	4	0.29	(1)	(1)	(2)
Foreign office deposits	1,321	1	0.27	3,805	3	0.29	(2)		(2)
Other time deposits	4,359	17	1.60	6,738	40	2.40	(12)	(11)	(23)
Certificates - $100,000 and over	3,130	12	1.50	3,955	20	2.05	(3)	(5)	(8)
Other deposits	23		0.13	2		0.02			
Federal funds purchased	408		0.15	344		0.11			

Other short-term borrowings	**4,303**	**2**	**0.17**	1,605	1	0.16	1		1
Long-term debt	**9,669**	**75**	**3.11**	10,527	83	3.16	(7)	(1)	(8)
Total interest-bearing liabilities	**73,162**	**132**	**0.73**	72,503	181	1.00	(21)	(28)	(49)
Demand deposits	**26,351**			22,174					
Other liabilities	**4,462**			4,129					
Total liabilities	**103,975**			98,806					
Total equity	**13,679**			12,394					
Total liabilities and equity	**$ 117,654**			$ 111,200					
Net interest income		**$ 899**			$ 869		$ 69	(39)	30
Net interest margin			**3.56 %**			3.62 %			
Net interest rate spread			**3.35**			3.37			
Interest-bearing liabilities to interest-earning assets			**71.96**			75.25			

(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 **$4** and $5 for the three months ended **June 30, 2012** and 2011, respectively.*

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

TABLE 4: Condensed Average Balance Sheets and Analysis of Net Interest Income

For the six months ended	June 30, 2012			June 30, 2011			Attribution of Change in Net Interest Income *(a)*		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield Rate	Average Balance	Revenue/ Cost	Average Yield Rate	Volume	Yield/Rate	Total
Assets									
Interest-earning assets:									
Loans and leases:[(b)]									
Commercial and industrial loans	$ 32,095	$ 665	4.16 %	$ 27,689	$ 605	4.40 %	$ 94	(34)	60
Commercial mortgage	9,975	192	3.88	10,652	214	4.06	(13)	(9)	(22)
Commercial construction	947	14	3.05	2,017	31	3.08	(17)		(17)
Commercial leases	3,507	65	3.73	3,356	69	4.12	3	(7)	(4)
Subtotal commercial	46,524	936	4.05	43,714	919	4.24	67	(50)	17
Residential mortgage loans	12,994	268	4.15	10,695	244	4.60	50	(26)	24
Home equity	10,518	200	3.82	11,259	220	3.94	(13)	(7)	(20)
Automobile loans	11,819	228	3.87	11,130	273	4.95	18	(63)	(45)
Credit card	1,920	92	9.67	1,843	93	10.17	4	(5)	(1)
Other consumer loans/leases	357	74	41.46	624	62	20.14	(34)	46	12
Subtotal consumer	37,608	862	4.61	35,551	892	5.06	25	(55)	(30)
Total loans and leases	84,132	1,798	4.30	79,265	1,811	4.61	92	(105)	(13)
Securities:									
Taxable	15,430	275	3.58	15,135	298	3.96	6	(29)	(23)
Exempt from income taxes[(b)]	61	1	5.31	147	3	5.31	(2)		(2)
Other short-term investments	1,461	2	0.25	1,959	2	0.25			
Total interest-earning assets	101,084	2,076	4.13	96,506	2,114	4.42	96	(134)	(38)
Cash and due from banks	2,304			2,313					
Other assets	15,785			15,098					
Allowance for loan and lease losses	(2,184)			(2,894)					
Total assets	$ 116,989			$ 111,023					
Liabilities and Equity									
Interest-bearing liabilities:									
Interest checking	$ 22,928	$ 25	0.22 %	$ 18,621	$ 25	0.27 %	$ 4	(4)	
Savings	22,043	22	0.20	21,572	40	0.38	2	(20)	(18)
Money market	4,401	5	0.22	5,072	8	0.30	(1)	(2)	(3)
Foreign office deposits	1,799	2	0.26	3,693	6	0.30	(3)	(1)	(4)
Other time deposits	4,455	36	1.61	7,049	83	2.38	(25)	(22)	(47)
Certificates-$100,000 and over	3,154	24	1.52	4,090	41	2.02	(8)	(9)	(17)
Other deposits	21		0.11	2		0.03			
Federal funds purchased	389		0.13	327		0.12			
Other short-term borrowings	3,782	3	0.15	1,622	2	0.18	1		1

Long-term debt	**9,719**	**157**	**3.26**	10,389	157	3.05	(10)	10	
Total interest-bearing liabilities	**72,691**	**274**	**0.76**	72,437	362	1.01	(40)	(48)	(88)
Demand deposits	**26,207**			21,880					
Other liabilities	**4,544**			3,970					
Total liabilities	**103,442**			98,287					
Total equity	**13,547**			12,736					
Total liabilities and equity	**$ 116,989**			$ 111,023					
Net interest income		**$ 1,802**			$ 1,752		$ 136	(86)	50
Net interest margin			**3.59 %**			3.66 %			
Net interest rate spread			**3.37**			3.41			
Interest-bearing liabilities to interest-earning assets			**71.91**			75.06			

(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 **$9** for the six months ended **June 30, 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.

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

The provision for loan and lease losses was $71 million and $162 million for the three and six months ended June 30, 2012 compared to $113 million and $281 million during the same periods in 2011. The decrease in provision expense compared to the same periods 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 $598 million from $2.6 billion at June 30, 2011 to $2.0 billion at June 30, 2012. The ALLL declined $239 million from December 31, 2011 to June 30, 2012. As of June 30, 2012, the ALLL as a percent of loans and leases decreased to 2.45%, compared to 2.78% at December 31, 2011 and 3.35% at June 30, 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 $22 million, or three percent, for the second quarter of 2012 compared to the second quarter of 2011 and increased $208 million, or 17%, for the six months ended June 30, 2012 compared to the same period in the prior year. The components of noninterest income for the three and six months ended June 30, 2012 and 2011 are as follows:

TABLE 5: Noninterest Income

	For the three months ended June 30,			For the six months ended June 30,		
($ in millions)	**2012**	2011	% Change	**2012**	2011	% Change
Mortgage banking net revenue	**$ 183**	162	13	**$ 387**	264	47
Service charges on deposits	**130**	126	4	**260**	250	4
Corporate banking revenue	**102**	95	7	**199**	181	10
Investment advisory revenue	**93**	95	(2)	**190**	193	(2)
Card and processing revenue	**64**	89	(28)	**122**	169	(28)
Other noninterest income	**103**	83	25	**279**	164	71
Securities gains, net	**3**	6	(50)	**11**	14	(21)
Securities gains, net - non-qualifying hedges on mortgage servicing rights			NM		5	NM
Total noninterest income	**$ 678**	656	3	**$ 1,448**	1,240	17

Mortgage banking net revenue

Mortgage banking net revenue increased $21 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 and increased $123 million during the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The components of mortgage banking net revenue are as follows:

TABLE 6: Components of Mortgage Banking Net Revenue

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2012**	2011	**2012**	2011
Origination fees and gains on loan sales	**$ 183**	64	**$ 357**	126

Net servicing revenue:				
Gross servicing fees	**63**	58	**124**	116
Servicing rights amortization	**(41)**	(25)	**(86)**	(53)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**(22)**	65	**(8)**	75
Net servicing revenue		98	**30**	138
Mortgage banking net revenue	**$ 183**	162	**$ 387**	264

Origination fees and gains on loan sales increased $119 million and $231 million for the three and six months ended June 30, 2012, respectively, compared to the three and six months ended June 30, 2011. The increase from both periods in the prior year was primarily the result of an 89% and 76% increase in residential mortgage loan originations from the three and six months ended June 30, 2011, respectively, coupled with an increase in profit margins on sold residential mortgage loans. Residential mortgage loan originations increased to $5.9 billion during the second quarter of 2012 compared to $3.1 billion during the second quarter of 2011 and increased to $12.4 billion during the six months ended June 30, 2012 from $7.1 billion during the six months ended June 30, 2011. The increase in originations is primarily due to strong refinancing activity as mortgage rates remain at historical lows coupled with an increase in refinancing activity under the HARP 2.0 program.

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 $98 million and $108 million for the three and six months ended June 30, 2012

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compared to the three and six months ended June 30, 2011, driven primarily by decreases of $87 million and $83 million, respectively, in net valuation adjustments.

The net valuation adjustment loss of $22 million during the second quarter of 2012 included $60 million of temporary impairment on the MSRs partially offset by $38 million in gains from derivatives economically hedging the MSRs. Mortgage rates decreased slightly for the three months ended June 30, 2012. This caused modeled prepayments speeds to increase, which led to the temporary impairment on servicing rights during the three months ended June 30, 2012. The derivatives economically hedging the MSRs only partially offset the temporary impairment on servicing rights as a result of inefficiencies in the Bancorp s non-qualifying hedging strategy. The net valuation adjustment of $65 million during the second quarter of 2011 included $129 million in gains from derivatives economically hedging the MSRs partially offset by $64 million in temporary impairment on the MSR portfolio. The net valuation adjustment loss of $8 million for the six months ended June 30, 2012 included $49 million of temporary impairment on the MSRs partially offset by $42 million in gains from derivatives economically hedging the MSRs. The net valuation adjustment of $75 million for the six months ended June 30, 2011 included $102 million in gains from derivatives economically hedging the MSR portfolio partially offset by $27 million of temporary impairment on the MSR portfolio. Gross servicing fees increased $5 million from the second quarter of 2011 and $8 million from the six months ended June 30, 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 June 30, 2012, December 31, 2011 and June 30, 2011 were $74.8 billion, $70.6 billion and $66.8 billion, respectively, with $61.6 billion, $57.1 billion and $56.0 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 MSRs 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 three months ended June 30, 2012 and 2011 and six months ended June 30, 2012. Net gains on sales of these securities were $5 million for the six months ended June 30, 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 $4 million and $10 million for the three and six months ended June 30, 2012, respectively, compared to the three and six months ended June 30, 2011. This increase was primarily driven by commercial deposit revenue which increased $5 million and $10 million for the three and six months ended June 30, 2012, respectively, compared to the same periods in the prior year due to an increase in new customer relationships.

Corporate banking revenue

Corporate banking revenue increased $7 million and $18 million for the three and six months ended June 30, 2012, respectively, compared to the three and six months ended June 30, 2011. The increase compared to the three months ended June 30, 2011 was primarily due to increases in foreign exchange income, business lending fees and institutional sales. The increase compared to the six months ended June 30, 2011 included the impact of the previously mentioned factors coupled with a $9 million increase in syndication fees due to increased market and business activity.

Investment advisory revenue

Investment advisory revenue decreased $2 million and $3 million for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011. The decrease from both prior year periods was primarily driven by a decline in mutual fund fees. The Bancorp had approximately $291 billion and $276 billion in total assets under care as of June 30, 2012 and 2011, respectively, and managed $25 billion in assets for individuals, corporations and not-for-profit organizations for both comparative periods.

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

Card and processing revenue decreased $25 million and $47 million for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 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:

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TABLE 7: Components of Other Noninterest Income

($ in millions)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Gain on Vantiv, Inc. IPO	**$**		**$ 115**	
Operating lease income	**15**	14	**29**	30
Cardholder fees	**12**	9	**22**	18
BOLI income	**9**	11	**18**	21
Banking center income	**8**	7	**15**	14
Gain on loan sales	**8**	8	**14**	25
Insurance income	**7**	5	**14**	13
Consumer loan and lease fees	**7**	8	**13**	15
Loss on sale of OREO	**(19)**	(26)	**(36)**	(28)
Equity method earnings from interest in Vantiv Holding, LLC	**26**	6	**2**	15
Other, net	**30**	41	**73**	41
Total other noninterest income	**$ 103**	83	**$ 279**	164

Other noninterest income increased $20 million, or 25%, in the second quarter of 2012 compared to the second quarter of 2011 and $115 million, or 71%, for the six months ended June 30, 2012 compared to the same period in the prior year. The increase compared to the second quarter of 2011 was primarily due to a $28 million increase in positive valuation adjustments on the warrants issued as part of the Bancorp s sale of its processing business sale, recorded in the other caption above. Additionally, other noninterest income included a $20 million increase in equity method income recorded from the Bancorp s ownership interest in Vantiv Holding, LLC and a $7 million decrease in the loss on sale of OREO. These impacts were partially offset by a $7 million reduction in income related to the Visa total return swap and $17 million in lower of cost or market adjustments associated with bank premises held-for-sale. The increase compared to the six months ended June 30, 2011 was primarily due to a $115 million gain from the Vantiv, Inc. IPO recognized in the first quarter of 2012 and a $77 million increase in gains on the valuation of warrants and put options issued as part of the Bancorp s sale of its processing business, recorded in the other caption. The increase was partially offset by $34 million in debt termination charges, included in equity method earnings, incurred in the first quarter of 2012 related to Vantiv Holding, LLC s debt refinancing and $17 million in lower of cost or market adjustments associated with bank premises held-for-sale. 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 19 of the Notes to Condensed Consolidated Financial Statements.

Noninterest Expense

Total noninterest expense increased $36 million, or four percent, for the three months ended June 30, 2012, and $92 million, or five percent, for the six months ended June 30, 2012 compared to the three and six months ended June 30, 2011, respectively. The major components of noninterest expense are as follows:

TABLE 8: Noninterest Expense

($ in millions)	For the three months ended June 30, 2012	2011	% Change	For the six months ended June 30, 2012	2011	% Change
Salaries, wages and incentives	**$ 393**	365	8	**$ 792**	716	11
Employee benefits	**84**	79	6	**195**	176	11

Net occupancy expense	**74**	75	(1)	**151**	152	(1)
Technology and communications	**48**	48	1	**95**	93	2
Card and processing expense	**30**	29	4	**60**	58	4
Equipment expense	**27**	28	(2)	**55**	57	(4)
Other noninterest expense	**281**	277	1	**563**	567	(1)
Total noninterest expense	**$ 937**	901	4	**$ 1,911**	1,819	5
Efficiency ratio	**59.4 %**	59.1 %		**58.8 %**	60.8 %	

Total personnel costs increased $33 million and $95 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods in 2011. The increase from both periods in the prior year was primarily due to an increase in base and incentive compensation driven by higher compensation costs reflecting improved production levels, as well as higher employee benefits expense due primarily to an increase in medical claims under the Bancorp s self-insured medical plan and a seasonal increase in payroll tax expense. Full time equivalent employees totaled 20,888 at June 30, 2012 compared to 20,953 at June 30, 2011.

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TABLE 9: Components of Other Noninterest Expense

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2012**	2011	**2012**	2011
Loan and lease	**$ 46**	48	**$ 91**	94
Marketing	**36**	31	**59**	53
Losses and adjustments	**29**	22	**69**	51
FDIC insurance and other taxes	**27**	50	**45**	101
Affordable housing investments impairment	**19**	26	**46**	50
Professional services fees	**15**	12	**25**	26
Travel	**13**	14	**25**	26
Postal and courier	**12**	12	**25**	25
Operating lease	**10**	10	**21**	21
Recruitment and education	**7**	8	**14**	15
OREO	**5**	6	**10**	18
Insurance	**5**	1	**10**	13
Intangible asset amortization	**4**	6	**7**	13
Provision for unfunded commitments and letters of credit	**(1)**	(14)	**(3)**	(30)
Other, net	**54**	45	**119**	91
Total other noninterest expense	**$ 281**	277	**$ 563**	567

Total other noninterest expense increased $4 million and decreased $4 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods in 2011. The provision for representation and warranty claims, included in losses and adjustments, increased by $5 million and $14 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods in the prior year primarily due to an increase in demand requests during the first half of 2012. FDIC insurance and other taxes decreased $23 million and $56 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods in the prior year. The decrease in FDIC expense and other taxes is primarily attributable to a decrease in the assessment rate due to changes in the level and measurement of higher risk assets and improved credit quality metrics. These effects were partially offset by a decrease in the benefit from the provision for unfunded commitments and letters of credit of $13 million and $27 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods in 2011. The reduction in the benefit was due to improving credit trends in the first half of 2012 as well as an increase in the unfunded commitments for which the Bancorp holds reserves as of June 30, 2012 compared to June 30, 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 59.4% and 58.8% for the three and six months ended June 30, 2012 compared to 59.1% and 60.8% for the three and six months ended June 30, 2011.

Applicable Income Taxes

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

TABLE 10: Applicable Income Taxes

	For the three months	For the six months

($ in millions)	ended June 30, 2012	2011	ended June 30, 2012	2011
Income before income taxes	**$ 565**	506	**$ 1,168**	883
Applicable income tax expense	**180**	169	**352**	281
Effective tax rate	**31.8 %**	33.3	**30.2 %**	31.8

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. The decrease in the effective tax rate for the three and six months ended June 30, 2012 from the comparable prior year periods was primarily due to a decrease in the amount of income tax expense associated with previously recognized tax benefits associated with stock-based awards that will not be realized.

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 11 summarizes end of period loans and leases, including loans held for sale and Table 12 summarizes average total loans and leases, including loans held for sale.

TABLE 11: Components of Total Loans and Leases (includes held for sale)

	June 30, 2012		December 31, 2011		June 30, 2011	
($ in millions)	**Balance**	**% of Total**	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial and industrial loans	**$ 32,625**	**39**	30,828	38	28,155	36
Commercial mortgage loans	**9,697**	**12**	10,214	12	10,331	13
Commercial construction loans	**834**	**1**	1,037	1	1,805	2
Commercial leases	**3,471**	**4**	3,531	4	3,326	4
Subtotal commercial	**46,627**	**56**	45,610	55	43,617	55
Consumer:						
Residential mortgage loans	**13,217**	**15**	13,474	16	10,838	14
Home equity	**10,378**	**13**	10,719	13	11,048	14
Automobile loans	**11,739**	**14**	11,827	14	11,315	14
Credit card	**1,943**	**2**	1,978	2	1,856	2
Other consumer loans and leases	**318**		364		478	1
Subtotal consumer	**37,595**	**44**	38,362	45	35,535	45
Total loans and leases	**$ 84,222**	**100**	83,972	100	79,152	100
Total portfolio loans and leases (excludes loans held for sale)	**$ 82,359**		81,018		77,967	

Total loans and leases, including held for sale, increased $250 million from December 31, 2011 and increased $5.1 billion, or six percent, from June 30, 2011. The increase from December 31, 2011 was due to an increase of $1.0 billion, or two percent, in commercial loans and leases partially offset by a decrease of $767 million, or two percent in consumer loans and leases. The increase from June 30, 2011 was due to an increase of $3.0 billion, or seven percent, in commercial loans and leases and $2.1 billion, or six percent, in consumer loans and leases.

Total commercial loans and leases increased from December 31, 2011 and June 30, 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 $1.8 billion, or six percent, from December 31, 2011 and $4.5 billion, or 16%, from June 30, 2011 due to an increase in new loan origination activity from an increase in demand due to a strengthening economy and an increased sales force personnel. Commercial construction loans decreased $203 million, or 20%, from December 31, 2011 and $971 million, or 54%, from June 30, 2011 and commercial mortgage loans decreased $517 million, or five percent, from December 31, 2011 and $634 million, or six percent, from June 30, 2011 due to continued run-off in these loan categories. The run-off reflects weak customer demand 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 $257 million, or two percent, from December 31, 2011 due to a decrease in residential mortgage loans held for sale partially offset by an increase in portfolio residential mortgage loans. Residential mortgage loans held for sale decreased $1.0 billion from December 31, 2011 primarily due to strong refinancing in the fourth quarter of 2011 and the timing of delivery of loans. Portfolio residential mortgage loans increased $757 million from December 31, 2011 due to management s decision to retain certain shorter term residential mortgage loans originated through the Bancorp s retail branches. Home equity loans decreased $341 million, or three percent, from December 31, 2011 as payoffs exceeded new loan production.

Total consumer loans and leases increased from June 30, 2011 primarily due to an increase in residential mortgage loans and automobile loans partially offset by a decrease in home equity loans and other consumer loans and leases. Residential mortgage loans increased $2.4 billion, or 22%, from June 30, 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 half of 2012 compared to the first half of 2011. Automobile loans increased $424 million, or four percent, compared to June 30, 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 $670 million, or six percent, from June 30, 2011 as payoffs exceeded new loan production. Other consumer loans and

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leases decreased $160 million, or 33%, from June 30, 2011 due to the runoff of automobile leases as the Bancorp stopped originating automobile leases in November of 2008.

TABLE 12: Components of Average Total Loans and Leases (includes held for sale)

	June 30, 2012		December 31, 2011		June 30, 2011	
For the three months ended ($ in millions)	**Balance**	**% of Total**	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial and industrial loans	**$ 32,770**	**39**	29,954	36	27,970	36
Commercial mortgage loans	**9,873**	**12**	10,350	13	10,491	13
Commercial construction loans	**886**	**1**	1,155	1	1,950	2
Commercial leases	**3,471**	**4**	3,352	4	3,349	4
Subtotal commercial	**47,000**	**56**	44,811	54	43,760	55
Consumer:						
Residential mortgage loans	**13,059**	**16**	12,638	16	10,655	14
Home equity	**10,430**	**12**	10,810	13	11,144	14
Automobile loans	**11,755**	**14**	11,696	14	11,188	14
Credit card	**1,915**	**2**	1,906	2	1,834	2
Other consumer loans and leases	**349**		417	1	572	1
Subtotal consumer	**37,508**	**44**	37,467	46	35,393	45
Total average loans and leases	**$ 84,508**	**100**	82,278	100	79,153	100
Total average portfolio loans and leases (excludes loans held for sale)	**$ 82,586**		79,914		77,937	

Average total loans and leases, including held for sale, increased $2.2 billion, or three percent, from December 31, 2011 and increased $5.4 billion, or seven percent, from June 30, 2011. The increase from December 31, 2011 was primarily driven by an increase of $2.2 billion, or five percent, in average commercial loans and leases. The increase from June 30, 2011 was due to an increase of $3.2 billion, or seven percent, in average commercial loans and leases and an increase of $2.1 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 $2.8 billion, or nine percent, in average commercial and industrial loans, partially offset by a decrease of $477 million, or five percent, in average commercial mortgage loans, and a decrease of $269 million, or 23%, in average commercial construction loans due to the reasons previously discussed. Average commercial loans and leases increased from June 30, 2011 due to an increase of $4.8 billion, or 17%, in average commercial and industrial loans, partially offset by a decrease of $1.1 billion, or 55%, in average commercial construction loans and a decrease of $618 million, or six percent, in average commercial mortgage loans due to the reasons previously discussed.

Average total consumer loans increased $41 million from December 31, 2011 due to an increase of $421 million, or three percent, in average residential mortgage loans partially offset by a decrease of $380 million, or four percent, in average home equity loans. Average residential mortgage loans increased from December 31, 2011 due to continued strong refinancing activity associated with historically low interest rates as well as the continued retention of certain branch originated fixed-rate residential mortgages with shorter terms. Average home equity loans decreased from December 31, 2011 as payoffs exceeded new loan production.

Average total consumer loans increased from June 30, 2011 due to an increase of $2.4 billion, or 23%, in average residential mortgage loans and an increase of $567 million, or five percent, in average automobile loans partially offset by a decrease of $714 million, or six percent, in average home equity loans and a decrease of $223 million, or 39%, in average other consumer loans and leases 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. Total investment securities were $16.1 billion at June 30, 2012 and 2011 and $15.9 billion at December 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.

At June 30, 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 $117 million of securities classified as below investment grade as of June 30, 2012, compared to $122 million as of December 31, 2011 and $131 million as of June 30, 2011. 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. The Bancorp recognized $17 million of OTTI on its available-for-sale investment securities portfolio during the three and six months ended June 30, 2012 and an immaterial amount was recognized during the three and six months ended June 30, 2011. The Bancorp did not recognize any OTTI on any of its held to maturity investment securities during the three and six

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months ended June 30, 2012 and 2011. See Note 4 of the Notes to the Condensed Consolidated Financial Statements for further information on OTTI.

TABLE 13: Components of Investment Securities

($ in millions)	**June 30, 2012**	December 31, 2011	June 30, 2011
Available-for-sale and other: (amortized cost basis)			
U.S. Treasury and government agencies	**$ 51**	171	199
U.S. Government sponsored agencies	**1,781**	1,782	2,141
Obligations of states and political subdivisions	**205**	96	113
Agency mortgage-backed securities	**8,807**	9,743	10,269
Other bonds, notes and debentures[(a)]	**2,743**	1,792	1,135
Other securities[(b)]	**1,231**	1,030	1,032
Total available-for-sale and other securities	**$ 14,818**	14,614	14,889
Held-to-maturity: (amortized cost basis)			
Obligations of states and political subdivisions	**$ 303**	320	340
Other bonds, notes and debentures	**2**	2	4
Total held-to-maturity	**$ 305**	322	344
Trading: (fair value)			
Obligations of states and political subdivisions	**$ 14**	9	38
Agency mortgage-backed securities	**19**	11	33
Other bonds, notes and debentures	**11**	13	11
Other securities	**156**	144	135
Total trading	**$ 200**	177	217

(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 $204 million, or 1%, from December 31, 2011 primarily due to an increase in other bonds, notes, and debentures and other securities partially offset by a decrease in agency-mortgage backed securities. Agency mortgage-backed securities decreased $936 million, or 10%, primarily due to sales of collateralized mortgage obligations and mortgage-backed securities totaling $814 million during the first half of 2012. The remaining decrease is due to principal and interest pay downs on agency mortgage-backed securities being reinvested in other bonds, notes, and debentures. Other bonds, notes, and debentures increased $951 million, or 53%, primarily due to $1.1 billion in purchases of commercial mortgage-backed securities, asset-backed securities, and corporate bonds during the first half of 2012. Other securities increased $201 million, or 20%, as excess cash from the runoff of agency mortgage-backed securities was invested in money market mutual funds.

Available-for-sale securities on an amortized cost basis decreased $71 million from June 30, 2011 primarily due to a decrease in agency mortgage-backed securities and U.S. Government sponsored agency securities partially offset by an increase in other bonds, notes, and debentures. Agency mortgage-backed securities decreased $1.5 billion, or 14%, primarily due to sales of collateralized mortgage obligations and mortgage-backed securities totaling $1.4 billion during the second half of 2011 and first half of 2012.The remaining decrease is due to principal and interest pay downs on agency mortgage-backed securities being reinvested in other bonds, notes, and debentures which increased $1.6 billion, or 142%. Government sponsored agency securities decreased $360 million, or 17%, due to sales in the second half of 2011.

At June 30, 2012 available-for-sale securities were 15% of total interest-earning assets compared to 14% at December 31, 2011 and 16% at June 30, 2011. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 4.0 years at June 30, 2012, 3.6 years at December 31, 2011, and 4.5 years at June 30, 2011. In addition, at June 30, 2012, the available-for-sale securities portfolio had a weighted-average yield of 3.64%, compared to 3.66% at December 31, 2011 and 4.28% at June 30, 2011.

Information presented in Table 14 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 $734 million at June 30, 2012, compared to $748 million at December 31, 2011 and $613 million at June 30, 2011. The increase from June 30, 2011 was due to a continued low interest rate environment.

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TABLE 14: Characteristics of Available-for-Sale and Other Securities

As of June 30, 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	0.2	1.43 %
Average life 5 10 years	1	1	6.6	1.48
Total	51	51	0.3	1.44
U.S. Government sponsored agencies:				
Average life of one year or less	154	156	0.7	2.51
Average life 1 5 years	1,516	1,689	4.2	3.57
Average life 5 10 years	111	121	5.4	2.95
Total	1,781	1,966	4.0	3.44
Obligations of states and political subdivisions:(a)				
Average life of one year or less	1	1	0.2	8.05
Average life 1 5 years	91	91	3.0	1.40
Average life 5 10 years	111	117	6.7	4.56
Average life greater than 10 years	2	2	12.1	0.01
Total	205	211	5.2	3.14
Agency mortgage-backed securities:				
Average life of one year or less	564	581	0.7	5.01
Average life 1 5 years	7,080	7,484	3.2	4.08
Average life 5 10 years	1,163	1,214	5.7	3.12
Total	8,807	9,279	3.4	4.01
Other bonds, notes and debentures:				
Average life of one year or less	208	213	0.4	5.06
Average life 1 5 years	1,616	1,658	3.5	2.38
Average life 5 10 years	432	449	6.0	3.06
Average life greater than 10 years	487	491	16.7	2.25
Total	2,743	2,811	6.0	2.67
Other securities	1,231	1,234		
Total available-for-sale and other securities	$ 14,818	15,552	4.0	3.64 %

(a) *Taxable-equivalent yield adjustments included in the above table are 2.68%, 0.02%, 0.62%, 0.01% and 0.35% 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 69% of the Bancorp s asset funding base at June 30, 2012 and 2011 and 71% at December 31, 2011.

TABLE 15: Deposits

	June 30, 2012		December 31, 2011		June 30, 2011	
($ in millions)	**Balance**	**% of Total**	Balance	% of Total	Balance	% of Total
Demand	**$ 26,251**	**31**	27,600	32	22,589	28
Interest checking	**23,197**	**28**	20,392	24	18,072	22
Savings	**22,011**	**26**	21,756	25	21,764	27
Money market	**4,223**	**5**	4,989	6	4,859	6
Foreign office	**1,265**	**1**	3,250	4	3,271	4
Transaction deposits	**76,947**	**91**	77,987	91	70,555	87
Other time	**4,261**	**5**	4,638	5	6,399	8
Core deposits	**81,208**	**96**	82,625	96	76,954	95
Certificates-$100,000 and over	**3,065**	**4**	3,039	4	3,642	5
Other			46		2	
Total deposits	**$ 84,273**	**100**	85,710	100	80,598	100

Core deposits decreased $1.4 billion, or two percent, from December 31, 2011, driven by a decrease of $1.0 billion, or one percent, in transaction deposits and a decrease of $377 million, or eight percent, in other time deposits. The decrease in transaction deposits is primarily due to a decrease in demand deposits, money market deposits, and foreign office deposits partially offset by an increase in interest checking deposits. Demand deposits decreased $1.3 billion, or five percent, due to seasonality as commercial customers opted to hold excess cash at December 31, 2011 and reinvest the cash during the first half of 2012. Interest checking deposits increased $2.8 billion, or 14%, from December 31, 2011 partially driven by account migration from foreign office deposits which decreased $2.0 billion, or 61%, and money market deposits which decreased $766 million, or 15%, from December 31, 2011. The decrease in other time deposits from December 31,

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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.

Core deposits increased $4.3 billion, or six percent, compared to June 30, 2011 driven by an increase of $6.4 billion, or nine percent, in transaction deposits, partially offset by a decrease of $2.1 billion, or 33%, in other time deposits. The increase in transaction deposits was primarily due to an increase in interest checking deposits and demand deposits, partially offset by a decrease in foreign office deposits. Interest checking deposits increased $5.1 billion, or 28%, from June 30, 2011 partially driven by account migration from foreign office deposits which decreased $2.0 billion, or 61%, and money market deposits which decreased $636 million, or 13%. The remaining increase in interest checking deposits was due to growth from maturing certificates of deposits and continued growth from the preferred checking program which was introduced in February of 2011. Demand deposits increased $3.7 billion, or 16%, from June 30, 2011 primarily due to an increase in new accounts, growth from maturing certificates of deposits, and commercial customers opting to hold money in demand deposit accounts rather than investing excess cash given current market conditions. Other time deposits decreased 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 June 30, 2012, certificates $100,000 and over increased $26 million, or one percent, compared to December 31, 2011 and decreased $577 million, or 16%, from June 30, 2011. The decrease from June 30, 2011 was due to continued run-off attributable to the low rate environment.

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

TABLE 16: Average Deposits

	June 30, 2012		December 31, 2011		June 30, 2011	
($ in millions)	**Balance**	**% of Total**	Balance	% of Total	Balance	% of Total
Demand	**$ 26,351**	**31**	26,069	31	22,174	27
Interest checking	**23,548**	**27**	19,263	23	18,701	23
Savings	**22,143**	**26**	21,715	26	21,817	27
Money market	**4,258**	**5**	5,255	6	5,009	6
Foreign office	**1,321**	**2**	3,325	4	3,805	4
Transaction deposits	**77,621**	**91**	75,627	90	71,506	87
Other time	**4,359**	**5**	4,960	6	6,738	8
Core deposits	**81,980**	**96**	80,587	96	78,244	95
Certificates-$100,000 and over	**3,130**	**4**	3,085	4	3,955	5
Other	**23**		16		2	
Total average deposits	**$ 85,133**	**100**	83,688	100	82,201	100

On an average basis, core deposits increased $1.4 billion, or two percent, compared to December 31, 2011 due to an increase of $2.0 billion, or three percent, in average transaction deposits partially offset by a decrease of $601 million, or 12%, in other time deposits. The increase in average transaction deposits was driven by an increase in average interest checking deposits partially offset by a decrease in average foreign office deposits and average money market deposits. Average interest checking deposits increased $4.3 billion, or 22%, from December 31, 2011 partially driven by the account migration from average foreign office deposits mentioned above which decreased $2.0 billion, or 60%, from December 31, 2011 and from average money market deposits which decreased $997 million, or 19%, from December 31, 2011. The remaining increase in average interest checking deposits was due to continued growth in the preferred checking program which was introduced in February of 2011 and growth from maturing certificates of deposits. The decrease 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 $3.7 billion, or five percent, from June 30, 2011 due to an increase of $6.1 billion, or nine percent, in average transaction deposits partially offset by a decrease of $2.4 billion, or 35%, in average other time deposits. The increase in average core deposits was due to an increase in average demand deposits and average interest checking deposits partially offset by a decrease in foreign office deposits and money market deposits due to the reasons discussed above in the end of period year over year section. The decrease in average other time deposits was 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 $7.3 billion, $7.7 billion, and $10.0 billion at June 30, 2012, December 31, 2011, and June 30, 2011, respectively. Substantially all of these deposits were interest bearing. The contractual maturities of these deposits as of June 30, 2012 are summarized in the following table.

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TABLE 17: Contractual Maturities of Other Time Deposits and Certificates $100,000 and over

($ in millions)	June 30, 2012
Next 12 months	$ 3,785
13-24 months	2,199
25-36 months	852
37-48 months	213
49-60 months	224
After 60 months	53
Total	$ 7,326

Certificates $100,000 and over were $3.1 billion, $3.0 billion, and $3.6 billion at June 30, 2012, December 31, 2011, and June 30, 2011, respectively. The contractual maturities of these deposits as of June 30, 2012 are summarized in the following table.

TABLE 18: Contractual Maturities of Certificates - $100,000 and over

($ in millions)	June 30, 2012
Three months or less	$ 540
After three months through six months	575
After six months through 12 months	563
After 12 months	1,387
Total	$ 3,065

Borrowings

Total borrowings increased $1.7 billion, or 13 percent, from both December 31, 2011 and June 30, 2011. The increase in total borrowings from December 31, 2011 was primarily due to an increase in other short-term borrowings and federal funds purchased and the increase from June 30, 2011 was primarily due to an increase in other short-term borrowings and federal funds purchased partially offset by a decrease in long-term debt. As of June 30, 2012, total borrowings as a percentage of interest-bearing liabilities were 20% compared to 19% at both December 31, 2011 and June 30, 2011.

TABLE 19: Borrowings

($ in millions)	**June 30, 2012**	December 31, 2011	June 30, 2011
Federal funds purchased	**$ 641**	346	403
Other short-term borrowings	**4,613**	3,239	2,702
Long-term debt	**9,685**	9,682	10,152
Total borrowings	**$ 14,939**	13,267	13,257

Federal funds purchased increased by $295 million, or 85%, from December 31, 2011 driven by an increase in excess balances in reserve accounts held at Federal Reserve Banks that the Bancorp purchased from other member banks on an overnight basis. Other short-term borrowings increased $1.4 billion, or 42%, from December 31, 2011 driven by an increase of $1.6 billion in short-term FHLB borrowings partially offset by a decrease of $293 million in securities sold under repurchase agreements which are accounted for as collateralized financing transactions.

Federal funds purchased increased by $238 million, or 59%, from June 30, 2011, driven by an increase in excess balances in reserve accounts held at Federal Reserve Banks that the Bancorp purchased from other member banks on an overnight basis. Other short-term borrowings increased $1.9 billion, or 71%, from June 30, 2011 driven by an increase of $1.9 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. The increase in short-term FHLB borrowings was partially offset by the decline in demand deposits due to seasonality. Long-term debt decreased $467 million, or five percent, from June 30, 2011 primarily due to the termination of $375 million of structured repurchase agreements 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.

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

TABLE 20: Average Borrowings

($ in millions)	**June 30, 2012**	December 31, 2011	June 30, 2011
Federal funds purchased	**$ 408**	348	344
Other short-term borrowings	**4,303**	3,793	1,605
Long-term debt	**9,669**	9,707	10,527
Total average borrowings	**$ 14,380**	13,848	12,476

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Average total borrowings increased $532 million, or four percent, compared to December 31, 2011, primarily due to the previously mentioned increase in average other short-term borrowings. Average total borrowings increased $1.9 billion, or 15%, compared to June 30, 2011, primarily due to the previously mentioned increase in average other short-term borrowings partially offset by a decrease in average long-term debt.

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.

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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 20 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 U.S. 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, U.S. swap curve 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 and six months ended June 30, 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 by business segment is summarized in the following table.

TABLE 21: Business Segment Net Income Available to Common Shareholders

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2012**	2011	**2012**	2011
Income Statement Data				
Commercial Banking	**$ 163**	88	**$ 305**	170
Branch Banking	**50**	54	**79**	73
Consumer Lending	**33**	30	**81**	5
Investment Advisors	**8**	10	**16**	18
General Corporate & Other	**131**	155	**335**	336
Net income	**385**	337	**816**	602
Less: Net income attributable to noncontrolling interest			**1**	
Net income attributable to Bancorp	**385**	337	**815**	602

Dividends on preferred stock	**9**	9	**18**	185
Net income available to common shareholders	**$ 376**	328	**$ 797**	417

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Commercial Banking

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

TABLE 22: Commercial Banking

($ in millions)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Income Statement Data				
Net interest income (FTE)[(a)]	$ **352**	339	$ **705**	671
Provision for loan and lease losses	**61**	147	**137**	299
Noninterest income:				
Corporate banking revenue	**97**	90	**190**	172
Service charges on deposits	**54**	52	**109**	101
Other noninterest income	**26**	21	**55**	65
Noninterest expense:				
Salaries, incentives and benefits	**65**	60	**137**	117
Other noninterest expense	**204**	216	**420**	427
Income before taxes	**199**	79	**365**	166
Applicable income tax expense (benefit)[(a) (b)]	**36**	(9)	**60**	(4)
Net income	$ **163**	88	$ **305**	170
Average Balance Sheet Data				
Commercial loans, including held for sale	**$ 41,388**	38,049	**$ 40,875**	38,034
Demand deposits	**14,478**	12,075	**14,660**	12,028
Interest checking	**7,728**	7,959	**8,049**	8,129
Savings and money market	**2,666**	2,721	**2,636**	2,820
Certificates over $100,000	**1,851**	1,818	**1,853**	1,928
Foreign office deposits	**1,290**	1,841	**1,334**	1,888

*(a) Includes FTE adjustments of **$4** for the three months ended **June 30, 2012** and 2011, **$9** for the six months ended **June 30, 2012** and $8 for the six months ended June 30, 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 $163 million for the three months ended June 30, 2012, compared to net income of $88 million for the three months ended June 30, 2011. The increase in net income was driven by a decrease in the provision for loan and lease losses, lower noninterest expense, higher noninterest income and higher net interest income. For the six months ended June 30, 2012, net income was $305 million compared to $170 million for the same period of the prior year. The increase in net income was driven by a decrease in the provision for loan and lease losses, higher noninterest income and higher net interest income, partially offset by higher noninterest expense.

Net interest income increased $13 million and $34 million for the three and six months ended June 30, 2012, respectively, compared to the same periods of the prior year. The increases were driven primarily by growth in average commercial and industrial loans, partially offset by a decline in yields of 14 bps and 30 bps, respectively, on average commercial loans.

Provision for loan and lease losses decreased $86 million and $162 million for the three and six months ended June 30, 2012 compared to the same periods of the prior year as a result of improved credit trends. Net charge-offs as a percent of average loans and leases decreased to 59 bps for the three months ended June 30, 2012 compared to 155 bps for the same period of the prior year and decreased to 67 bps for the six months ended June 30, 2012 compared to 159 bps for the same period of the prior year.

Noninterest income increased $14 million in the second quarter of 2012 compared to the second quarter of 2011, primarily due to an increase in corporate banking revenue and an increase in other noninterest income. The increase in corporate banking revenue is primarily due to increases in business lending fees, which were driven by refinancing activities in the current market environment. The increase in other noninterest income was primarily driven by a decrease in losses recognized on the sale of OREO. For the six months ended June 30, 2012, noninterest income increased $16 million compared to the same period of the prior year due to an increase in corporate banking revenue and service charges on deposits partially offset by a decrease in other noninterest income. The increase in corporate banking revenue for the six months ended June 30, 2012, was due to an increase in business lending fees and the decrease in other noninterest income was driven by a decrease in gains recognized on the sale of OREO and loans, partially offset by an increase in corporate overhead allocations.

Noninterest expense decreased $7 million and increased $13 million for the three and six months ended June 30, 2012 compared to the same periods of the prior year. The decrease for the three months ended June 30, 2012 was driven by a decrease in other noninterest expense,

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partially offset by an increase in salaries, incentives and benefits of $5 million compared to the same period of the prior year. The increase for the six months ended June 30, 2012 was driven by an increase in salaries, incentives and benefits of $20 million, partially offset by a decrease in other noninterest expense compared to the same period of the prior year. Both the three and six months ended June 30, 2012 included an $8 million benefit from the sale of affordable housing investments in other noninterest expense.

Average commercial loans increased $3.3 billion and $2.8 billion for the three and six months ended June 30, 2012 compared to the same periods of the prior year primarily due to an increase in average commercial and industrial loans. The increase in commercial and industrial loans was partially offset by decreases in average commercial construction and mortgage loans. Average commercial and industrial loans increased $4.9 billion and $4.5 billion, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year as a result of an increase in new loan origination activity. Average commercial mortgage loans decreased $649 million and $699 million, respectively, for the three and six months ended June 30, 2012 and average commercial construction loans decreased $955 million and $957 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year, due to continued run-off in these loan categories. The run-off reflects weak customer demand and previous suspensions of new homebuilder and developer lending and non-owner occupied real estate lending.

Average core deposits increased $1.6 billion for the three months ended June 30, 2012 compared to the three months ended June 30, 2011, and $1.8 billion for the six months ended June 30, 2012 compared to the same period of 2011. The increase was primarily driven by strong growth in demand deposit accounts, which increased $2.4 billion and $2.6 billion, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year. The increase in DDAs was partially offset by decreases in interest bearing deposits of $842 million and $825 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year, 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 1,322 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 23: Branch Banking

($ in millions)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Income Statement Data				
Net interest income	**$ 342**	359	**$ 677**	698
Provision for loan and lease losses	**69**	98	**155**	214
Noninterest income:				
Service charges on deposits	**75**	73	**149**	147
Card and processing revenue	**70**	86	**130**	163
Investment advisory revenue	**32**	29	**64**	58
Other noninterest income	**28**	25	**52**	49
Noninterest expense:				
Salaries, incentives and benefits	**143**	148	**293**	297
Net occupancy and equipment expense	**60**	59	**119**	117
Card and processing expense	**29**	28	**57**	55
Other noninterest expense	**169**	156	**326**	321

Income before taxes	**77**	83	**122**	111
Applicable income tax expense	**27**	29	**43**	38
Net income	**$ 50**	54	**$ 79**	73
Average Balance Sheet Data				
Consumer loans	**$ 14,871**	13,912	**$ 14,843**	13,858
Commercial loans	**4,598**	4,651	**4,605**	4,610
Demand deposits	**9,798**	8,329	**9,457**	8,107
Interest checking	**9,499**	8,061	**9,293**	7,806
Savings and money market	**22,928**	22,349	**22,791**	22,069
Other time and certificates-$100,000 and over	**5,454**	8,387	**5,561**	8,727

Net income was $50 million for the three months ended June 30, 2012, compared to net income of $54 million for the three months ended June 30, 2011. The decrease was driven by a decrease in net interest income and noninterest income and an increase in noninterest expense, partially offset by a decline in the provision for loan and lease losses. For the six months ended June 30, 2012, net income was $79 million compared to $73 million for the same period of the prior year. The increase was driven by a decline in the provision for loan and lease losses, partially offset by an increase in noninterest expense and a decrease in net interest income and noninterest income.

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Net interest income decreased $17 million and $21 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year. The primary drivers of the declines are decreases in the FTP credits for checking and savings products. These decreases are partially offset by favorable shifts from certificates of deposit to lower cost transaction and savings products resulting in a decline in interest expense on core deposits, and higher loan interest income driven by higher loan balances.

Provision for loan and lease losses for the three months ended June 30, 2012 decreased $29 million compared to the second quarter of 2011, and declined $59 million for the six months ended June 30, 2012 compared to the same period of the prior year as a result of improved credit trends. Net charge-offs as a percent of average loans and leases decreased to 143 bps for the three months ended June 30, 2012 compared to 212 bps for three months ended June 30, 2011 and decreased to 160 bps for the six months ended June 30, 2012 compared to 234 bps for the same period of the prior year. The decreases are the result of improved credit trends and tighter underwriting standards.

Noninterest income decreased $8 million and $22 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year. These declines were primarily driven by lower card and processing revenue, which declined $16 million and $33 million, respectively, 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 from the impact of the Bancorp s initial mitigation activity and allocated commission revenue associated with merchant sales. These declines were partially offset by investment advisory revenue which increased $3 million and $6 million for the three and six months ended June 30, 2012 compared to the same periods of 2011, due to improved market performance.

Noninterest expense increased $10 million and $5 million, respectively, from the three and six months ended June 30, 2011, primarily driven by increases in other noninterest expense, which increased $13 million and $5 million, respectively. The increase for the three months ended June 30, 2012 was primarily due to increases in corporate overhead allocations. The increase for the six months ended June 30, 2012 was primarily due to increases in corporate overhead allocations, partially offset by a decrease in FDIC insurance expense. The increases in other noninterest expense were partially offset by decreases in salaries, incentives and benefits of $5 million and $4 million for the three and six months ended June 30, 2012 compared to the same periods of the prior year.

Average consumer loans increased $959 million for the second quarter of 2012 and $985 million for the six months ended June 30, 2012 compared to the same periods in the prior year. These increases were primarily due to increases in average residential mortgage loans of $1.4 billion for both the three and six months ended June 30, 2012 compared to the same periods in the prior year due to the retention of certain shorter-term originated mortgage loans rather than selling them in the secondary market. The increases in average residential mortgage loans were partially offset by decreases in average home equity loans of $528 million and $518 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year as payoffs exceeded new loan production.

Average core deposits increased by $1.2 billion and $1.1 billion for the three and six months ended June 30, 2012 compared to the same periods in the prior year as the growth in transaction accounts due to excess customer liquidity and historically low interest rates outpaced the run-off of higher priced other time deposits.

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.

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TABLE 24: Consumer Lending

($ in millions)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Income Statement Data				
Net interest income	**$ 77**	81	**$ 157**	171
Provision for loan and lease losses	**49**	55	**103**	149
Noninterest income:				
Mortgage banking net revenue	**179**	160	**380**	259
Other noninterest income	**10**	7	**20**	22
Noninterest expense:				
Salaries, incentives and benefits	**56**	39	**112**	83
Other noninterest expense	**110**	108	**217**	213
Income before taxes	**51**	46	**125**	7
Applicable income tax expense	**18**	16	**44**	2
Net income	**$ 33**	30	**$ 81**	5
Average Balance Sheet Data				
Residential mortgage loans	**$ 9,898**	8,906	**$ 9,953**	9,088
Home equity	**651**	740	**662**	756
Automobile loans	**11,097**	10,510	**11,154**	10,447
Consumer leases	**41**	181	**51**	213

Net income was $33 million and $81 million for the three and six months ended June 30, 2012 compared to net income of $30 million and $5 million, respectively, for the same periods in the prior year. For both comparative periods, the increases in net income were driven by an increase in noninterest income and a decline in provision for loan and lease losses, partially offset by a decrease in net interest income and an increase in noninterest expense.

Net interest income decreased $4 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 and decreased $14 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. These decreases were primarily driven by 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.

Provision for loan and lease losses decreased $6 million and $46 million, respectively, for the three and six months ended June 30, 2012, compared to the same periods of the prior year, 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 99 bps for the three months ended June 30, 2012 compared to 113 bps for the same period of the prior year and decreased to 103 bps for the six months ended June 30, 2012 compared to 156 bps for the same period of the prior year.

Noninterest income increased $22 million for the three months ended June 30, 2012 and increased $119 million for the six months ended June 30, 2012 compared to the same periods of the prior year. The increase from both periods in the prior year was primarily due to increases in mortgage banking net revenue of $19 million and $121 million for the three and six months ended June 30, 2012, respectively. These increases for the three and six months ended June 30, 2012 were driven by an increase in gains on loan sales of $117 million and $229 million due to an increase in profit margins on sold residential mortgage loans coupled with higher origination volumes, partially offset by a decrease in net residential mortgage servicing revenue of $98 million and $108 million for the three and six months ended June 30, 2012 compared to the same periods of the prior year.

Noninterest expense increased $19 million and $33 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year. For both periods, the increases were driven by salaries, incentives and benefits which increased primarily as a result of higher mortgage loan originations.

Average consumer loans and leases increased $1.3 billion for both the three and six months ended June 30, 2012 compared to the same periods of the prior year. Average automobile loans increased $587 million and $707 million, respectively, compared to the three and six months ended June 30, 2012 due to a strategic focus to increase automobile lending throughout 2011 and 2012 through consistent and competitive pricing, disciplined sales execution, and enhanced customer service with our dealership network. Average residential mortgage loans increased $992 million and $865 million, respectively, for the three and six months ended June 30, 2012, compared to the same periods of the prior year, due to the low interest rate environment. The increases were partially offset by decreases in home equity and consumer leases. Average home equity loans decreased $89 million and $94 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods in the prior year due to continued run-off in the discontinued brokered home equity product. Average consumer leases decreased $140 million and $162 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods in the prior year due to run-off as the Bancorp discontinued this product in the fourth quarter of 2008.

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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 provides advisory services for institutional clients including states and municipalities. Table 25 contains selected financial data for the Investment Advisors segment.

As previously mentioned, the Bancorp entered into two separate agreements in April of 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 25: Investment Advisors

($ in millions)	For the three months ended June 30, **2012**	2011	For the six months ended June 30, **2012**	2011
Income Statement Data				
Net interest income	**$ 29**	28	**$ 57**	56
Provision for loan and lease losses	**2**	4	**6**	9
Noninterest income:				
Investment advisory revenue	**91**	92	**185**	187
Other noninterest income	**7**	3	**11**	6
Noninterest expense:				
Salaries, incentives and benefits	**41**	42	**84**	85
Other noninterest expense	**71**	62	**138**	127
Income before taxes	**13**	15	**25**	28
Applicable income tax expense	**5**	5	**9**	10
Net income	**$ 8**	10	**$ 16**	18
Average Balance Sheet Data				
Loans and leases	**$ 1,898**	2,063	**$ 1,905**	2,096
Core deposits	**7,495**	6,746	**7,432**	6,601

Net income was $8 million and $16 million for the three and six months ended June 30, 2012 compared to net income of $10 million and $18 million, respectively, for the same periods in the prior year. For both comparative periods, the decreases in net income were driven by an increase in noninterest expense, partially offset by an increase in noninterest income and a decrease in the provision for loan and lease losses.

Net interest income increased $1 million for both the three and six months ended June 30, 2012 compared to the same periods of the prior year due to a decrease in interest expense on core deposits, partially offset by 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 and $3 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year as a result of improved credit trends across all loan types. Net charge-offs as a percent of average loans and leases decreased to 54 bps for the three months ended June 30, 2012 compared to 86 bps for the same period of the prior year and decreased to 64 bps for the six months ended June 30, 2012 compared to 90 bps for the same period of the prior year.

Noninterest income increased $3 million for both the three and six months ended June 30, 2012 compared to the same periods of the prior year, primarily driven by a gain on the sale of loans held for sale, partially offset by lower mutual fund fees and private client services revenue.

Noninterest expense increased $8 million and $10 million, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year, primarily driven by increases in corporate overhead allocations of $5 million and $10 million for the three and six months ended June 30, 2012.

Average loans and leases decreased $165 million and $191 million, respectively, for the three and six months ended June 30, 2012, compared to the same periods of the prior year. These decreases were primarily driven by declines in home equity loans of $85 million and $118 million, respectively, for the three and six months ended June 30, 2012 due to tighter underwriting standards. Average core deposits increased $749 million, or 11%, and $831 million, or 13%, respectively, for the three and six months ended June 30, 2012 compared to the same periods of the prior year 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, partially offset by account migration from foreign office deposits.

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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.

Results for the three months and six months ended June 30, 2012 were impacted by a benefit of $110 million and $239 million, respectively, due to reductions in the ALLL, dividends on preferred stock of $9 million and $18 million, respectively, and net interest income of $99 million and $206 million, respectively. Second quarter 2012 noninterest income results included $56 million in positive valuation adjustments on the Vantiv warrant, $17 million in negative value adjustments associated with bank premises held-for-sale, and a $11 million reduction in other noninterest income related to the valuation of a total return swap entered into as part of the 2009 sale of Visa, Inc. Class B shares. For the three and six months ended June 30, 2011, results were impacted by a benefit of $191 million and $390 million, respectively, due to reductions in the ALLL, dividends on preferred stock of $9 million and $185 million, respectively, and net interest income of $62 million and $156 million, respectively. For the three and six months ended June 30, 2012 and 2011, benefits to provision expense resulting from reductions in the ALLL were driven by general improvements in credit quality and declines in net-charge-offs.

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;

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

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.

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. The Bancorp 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 26: Potential Problem Loans

As of June 30, 2012 ($ in millions)	Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial	**$ 1,152**	**1,154**	**1,394**
Commercial mortgage	**1,039**	**1,039**	**1,042**
Commercial construction	**133**	**133**	**157**
Commercial leases	**18**	**18**	**18**
Total	**$ 2,342**	**2,344**	**2,611**

TABLE 27: Potential Problem Loans

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

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TABLE 28: Potential Problem Loans

As of June 30, 2011 ($ in millions)	Carrying Value	Unpaid Principal Balance	Exposure
Commercial and industrial	$ 1,500	1,501	1,891
Commercial mortgage	1,396	1,398	1,402
Commercial construction	322	323	361
Commercial leases	78	78	78
Total	$ 3,296	3,300	3,732

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 for credit approval and pricing, portfolio monitoring and capital allocation that includes a through-the-cycle rating philosophy for modeling expected losses. The dual risk rating system includes 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-category risk rating system. The Bancorp has completed significant validation and testing of the dual risk rating system as a commercial credit risk management tool. The Bancorp is assessing the necessary modifications to the dual risk rating system outputs to develop a GAAP compliant ALLL model and will make a decision on the use of modified dual risk ratings 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 half 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. Throughout 2011 and 2012, the Bancorp continued to aggressively engage in other loss mitigation strategies such as reducing credit commitments, restructuring certain commercial and consumer loans, tightening underwriting standards on commercial loans and across the consumer loan portfolio, as well as utilizing expanded commercial and consumer loan workout teams. For commercial and consumer loans owned by the Bancorp, loan modification strategies are developed that are workable for both the borrower and the Bancorp when the borrower displays a willingness to cooperate. These strategies typically involve either a reduction of the stated interest rate of the loan, an extension of the loan s maturity date(s) with a stated rate lower than the current market rate for a new loan with similar risk, or in limited circumstances, a reduction of the principal balance of the loan or the loan s accrued interest. For residential mortgage loans serviced for FHLMC and FNMA, the Bancorp participates in the HAMP and HARP 2.0 programs. For loans refinanced under the HARP 2.0 program, the Bancorp strictly adheres to the underwriting requirements of the program and promptly sells the refinanced loan back to the agencies. Loan restructuring under the HAMP program is performed on behalf of FHLMC or FNMA and the Bancorp does not take possession of these loans during the modification process. Therefore, participation in these programs does not significantly impact the Bancorp s credit quality statistics. The Bancorp participates in trial modifications in conjunction with the HAMP program for loans it services for FHLMC and FNMA. As these trial modifications relate to loans serviced for others, they are not included in the Bancorp s troubled debt restructurings as they are not assets of the Bancorp. In the event there is a representation and warranty violation on loans sold through the programs, the Bancorp may be required to repurchase the sold loan. As of June 30, 2012, repurchased loans restructured or refinanced under these programs were immaterial to the Bancorp s Condensed Consolidated Financial Statements. Additionally, as of June 30, 2012, $526 million of loans refinanced under HARP 2.0 were included in loans held for sale in the Bancorp s Condensed Consolidated Balance Sheets. For the three and six months ended June 30, 2012, the Bancorp recognized $49 million and $89 million of fee income in mortgage banking net revenue in the Bancorp s Condensed Consolidated Statements of Income related to the sale of loans restructured or refinanced under the HAMP and HARP 2.0 programs.

In the financial services industry, there has been heightened focus on foreclosure activity and processes. The Bancorp actively works with borrowers experiencing difficulties and has regularly modified or provided forbearance to borrowers where a workable solution could be

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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 has enhanced some of its processes and procedures to address some concerns that were raised and to comply with changes in state laws.

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

As of June 30, 2012 ($ in millions)	LTV > 100%	LTV 80-100%	LTV < 80%
Commercial mortgage owner-occupied loans	$ 426	330	2,419
Commercial mortgage nonowner-occupied loans	515	585	2,028
Total	$ 941	915	4,447

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

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TABLE 30: Commercial Loan and Lease Portfolio (Excluding loans held for sale)

	2012			2011		
As of June 30 ($ in millions)	**Outstanding**	**Exposure**	**Nonaccrual**	Outstanding	Exposure	Nonaccrual
By industry:						
Manufacturing	**$ 9,567**	**17,638**	**133**	$ 7,881	15,298	109
Real estate	**6,014**	**6,966**	**287**	7,757	8,782	359
Financial services and insurance	**4,680**	**11,039**	**48**	3,824	8,733	117
Business services	**4,225**	**6,291**	**76**	3,498	5,718	76
Wholesale trade	**3,693**	**6,904**	**34**	3,211	5,873	72
Healthcare	**3,552**	**5,563**	**18**	3,278	4,994	28
Transportation and warehousing	**2,679**	**3,599**	**8**	2,063	2,713	21
Retail trade	**2,517**	**5,646**	**45**	2,363	5,543	41
Construction	**2,091**	**3,225**	**153**	2,519	3,663	223
Communication and information	**1,377**	**2,344**	**19**	937	1,650	7
Mining	**1,202**	**2,175**	**7**	1,023	1,694	
Other services	**1,108**	**1,500**	**40**	1,067	1,479	47
Accommodation and food	**1,103**	**1,751**	**17**	1,062	1,584	55
Entertainment and recreation	**957**	**1,327**	**17**	844	1,095	18
Utilities	**529**	**1,900**		559	1,656	
Public administration	**479**	**709**		607	778	4
Individuals	**386**	**429**	**20**	426	477	8
Agribusiness	**378**	**535**	**61**	435	587	67
Other	**26**	**30**		82	140	1
Total	**$ 46,563**	**79,571**	**983**	$ 43,436	72,457	1,253
By loan size:						
Less than $200,000	**2 %**	**2**	**7**	3 %	2	7
$200,000 to $1 million	**7**	**6**	**20**	9	7	22
$1 million to $5 million	**17**	**12**	**29**	20	16	27
$5 million to $10 million	**12**	**10**	**11**	13	10	13
$10 million to $25 million	**27**	**25**	**27**	26	26	23
Greater than $25 million	**35**	**45**	**6**	29	39	8
Total	**100 %**	**100**	**100**	100 %	100	100
By state:						
Ohio	**22 %**	**25**	**16**	25 %	28	19
Michigan	**12**	**11**	**21**	14	12	19
Florida	**8**	**6**	**14**	8	6	15
Illinois	**8**	**8**	**11**	8	8	11
Indiana	**5**	**5**	**9**	6	5	11
Kentucky	**4**	**4**	**4**	4	4	5
North Carolina	**3**	**3**	**3**	3	3	4
Tennessee	**3**	**3**	**2**	3	3	1
Pennsylvania	**2**	**2**	**1**	2	2	2
All other states	**33**	**33**	**19**	27	29	13

Total	**100 %**	**100**	**100**	100 %	100	100

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 tables provide analysis of each of the categories of loans (excluding loans held for sale) by state as of and for the three and six months ended June 30, 2012 and 2011.

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TABLE 31: Non-Owner Occupied Commercial Real Estate

As of June 30, 2012 ($ in millions)					Net Charge-offs for June 30, 2012	
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	**$ 1,415**	**1,482**		**93**	**6**	**10**
Michigan	**1,270**	**1,293**		**84**	**8**	**22**
Florida	**652**	**677**		**56**	**4**	**13**
Illinois	**409**	**443**		**42**	**2**	**6**
Indiana	**296**	**299**		**12**		
North Carolina	**253**	**289**		**15**	**1**	**3**
All other states	**867**	**1,022**		**27**	**(5)**	**(5)**
Total	**$ 5,162**	**5,505**		**329**	**16**	**49**

TABLE 32: Non-Owner Occupied Commercial Real Estate

As of June 30, 2011 ($ in millions)					Net Charge-offs for June 30, 2011	
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 2,130	2,416	43	117	7	30
Michigan	1,572	1,649	1	65	8	19
Florida	786	879	2	89	25	30
Illinois	443	504		68	1	11
Indiana	365	408	6	17	1	3
North Carolina	346	394		35	5	7
All other states	644	711		26	5	11
Total	$ 6,286	6,961	52	417	52	111

TABLE 33: Home Builder and Developer *(a)*

As of June 30, 2012 ($ in millions)					Net Charge-offs for June 30, 2012	
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	**$ 138**	**187**		**9**	**2**	**6**
Michigan	**74**	**95**		**3**		**5**
Florida	**43**	**128**		**15**	**2**	**11**
North Carolina	**37**	**41**		**7**		**1**
Indiana	**26**	**30**		**9**		

Illinois	**10**	**19**		**8**		**2**
All other states	**48**	**59**		**10**		
Total	**$ 376**	**559**		**61**	**4**	**25**

(a) *Home Builder and Developer loans, exclusive of commercial and industrial loans with an outstanding balance of **$88** and a total exposure of **$235** are also included in Table 31: Non-Owner Occupied Commercial Real Estate.*

TABLE 34: Home Builder and Developer *(a)*

As of June 30, 2011 ($ in millions)					Net Charge-offs for June 30, 2011	
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 168	243		25	2	15
Michigan	132	167	1	13	2	5
Florida	84	96		32	5	8
North Carolina	63	73		17	3	3
Indiana	57	72		11		1
Illinois	27	39		14	1	2
All other states	66	83		16		1
Total	$ 597	773	1	128	13	35

(a) Home Builder and Developer loans, exclusive of commercial and industrial loans with an outstanding balance of $128 and a total exposure of $242 are also included in Table 32: Non-Owner Occupied Commercial Real Estate.

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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 $1.2 billion of adjustable rate residential mortgage loans will have rate resets during the next twelve months, with approximately two 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 35: Residential Mortgage Portfolio Loans by LTV at Origination

	June 30, 2012		December 31, 2011		June 30, 2011	
($ in millions)	Outstanding	Weighted Average LTV	Outstanding	Weighted Average LTV	Outstanding	Weighted Average LTV
LTV £ 80 %	**$ 8,503**	**66.3 %**	7,876	66.6 %	7,241	67.4 %
LTV > 80%, with mortgage insurance	**1,105**	**93.4**	1,030	92.7	904	93.1
LTV > 80%, no mortgage insurance	**1,821**	**95.7**	1,766	95.6	1,704	95.6
Total	**$ 11,429**	**73.6 %**	10,672	73.9 %	9,849	74.7 %

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 and for the three and six months ended June 30, 2012 and 2011:

TABLE 36: Residential Mortgage Portfolio Loans, LTV Greater Than 80%, No Mortgage Insurance

As of June 30, 2012 ($ in millions)	**Net Charge-offs for June 30, 2012**

By State:	Outstanding	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 607	3	24	4	8
Michigan	310	1	12	3	6
Florida	257	1	19	4	9
Illinois	162	1	4	1	1
Indiana	116	1	4	1	1
North Carolina	115		6	2	2
Kentucky	89		3		1
All other states	165	3	2	1	2
Total	$ 1,821	10	74	16	30

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TABLE 37: Residential Mortgage Loans Outstanding, LTV Greater Than 80%, No Mortgage Insurance

As of June 30, 2011 ($ in millions)				Net Charge-offs for June 30, 2011	
By State:	Outstanding	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 587	3	25	3	7
Michigan	304	1	15	2	7
Florida	283	2	26	6	17
North Carolina	122	1	6		1
Indiana	112	1	4	1	2
Illinois	89		2		1
Kentucky	83		3		1
All other states	124	1	3	1	2
Total	$ 1,704	9	84	13	38

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 $6.5 billion, respectively, as of June 30, 2012. Of the total $10.4 billion of outstanding home equity loans:

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

32% are in first lien positions and 68% are in second lien positions at June 30, 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

Over 80% of non-delinquent borrowers made at least one payment greater than the minimum payment during the three months ended June 30, 2012

The portfolio had an average refreshed FICO score of 735 and 734 at June 30, 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:

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TABLE 38: Home Equity Loans Outstanding by Refreshed FICO Score

	June 30, 2012		December 31, 2011		June 30, 2011	
($ in millions)	Outstanding	% of Total	Outstanding	% of Total	Outstanding	% of Total
First Liens:						
FICO < 620	**$ 208**	**2 %**	214	2 %	221	2 %
FICO 621-719	**623**	**6**	643	6	663	6
FICO > 720	**2,490**	**24**	2,466	23	2,541	23
Total First Liens	**3,321**	**32**	3,323	31	3,425	31
Second Liens:						
FICO < 620	**726**	**7**	750	7	773	7
FICO 621-719	**1,868**	**18**	1,929	18	1,989	18
FICO > 720	**4,462**	**43**	4,717	44	4,861	44
Total Second Liens	**7,056**	**68**	7,396	69	7,623	69
Total	**$ 10,377**	**100 %**	10,719	100 %	11,048	100 %

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

TABLE 39: Home Equity Loans Outstanding by LTV at Origination

	June 30, 2012		December 31, 2011		June 30, 2011	
($ in millions)	Outstanding	Weighted Average LTV	Outstanding	Weighted Average LTV	Outstanding	Weighted Average LTV
First Liens:						
LTV £ 80 %	**$ 2,817**	**54.9 %**	2,800	54.9 %	2,887	55.0 %
LTV > 80%	**504**	**89.0**	523	89.2	538	89.3
Total First Liens	**3,321**	**60.3**	3,323	60.4	3,425	60.6
Second Liens;						
LTV £ 80 %	**3,705**	**67.3**	3,882	67.3	3,917	67.3
LTV > 80%	**3,351**	**91.7**	3,514	91.8	3,706	91.9
Total Second Liens	**7,056**	**80.7**	7,396	81.0	7,623	81.2
Total	**$ 10,377**	**73.7 %**	10,719	74.0 %	11,048	74.3 %

The following tables provide analysis of home equity loans by state with LTV greater than 80% as of June 30, 2012 and 2011.

TABLE 40: Home Equity Loans Outstanding with LTV Greater than 80%

As of June 30, 2012 ($ in millions)					**Net Charge-offs for June 30, 2012**	
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	**$ 1,327**	**2,017**	**9**	**6**	**6**	**14**
Michigan	**838**	**1,156**	**8**	**4**	**7**	**14**
Illinois	**444**	**630**	**6**	**2**	**4**	**9**
Indiana	**371**	**552**	**3**	**2**	**1**	**2**
Kentucky	**348**	**528**	**2**	**1**	**1**	**3**
Florida	**136**	**180**	**3**	**2**	**2**	**5**
All other states	**391**	**511**	**4**	**3**	**5**	**10**
Total	**$ 3,855**	**5,574**	**35**	**20**	**26**	**57**

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TABLE 41: Home Equity Loans Outstanding with LTV Greater than 80%

As of June 30, 2011 ($ in millions)					Net Charge-offs for June 30, 2011	
By State:	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 1,467	2,174	10	6	8	17
Michigan	928	1,251	8	5	9	19
Illinois	459	643	5	2	5	9
Indiana	414	603	2	2	2	5
Kentucky	389	580	4	1	1	3
Florida	156	202	5	4	3	10
All other states	431	539	7	3	6	11
Total	$ 4,244	5,992	41	23	34	74

Automobile Portfolio

The automobile portfolio is characterized by direct and indirect lending products to consumers. As of June 30, 2012, 49% of the automobile loan portfolio is comprised of new automobiles. It is a common practice to advance on automobile loans an amount in excess of the automobile value due to the inclusion of taxes, title, and other fees paid at closing. The Bancorp monitors its exposure to these higher risk loans. The following table provides an analysis of automobile loans outstanding by LTV at origination:

TABLE 42: Automobile Loans Outstanding with LTV at Origination

	June 30, 2012		December 31, 2011		June 30, 2011	
($ in millions)	Outstanding	Weighted Average LTV	Outstanding	Weighted Average LTV	Outstanding	Weighted Average LTV
LTV £100 %	**$ 7,876**	**81.7 %**	7,805	81.7 %	7,310	81.8 %
LTV > 100%	**3,863**	**111.0**	4,022	111.5	4,005	112.1
Total	**$ 11,739**	**91.6 %**	11,827	92.1 %	11,315	92.8 %

The following tables provide analysis of the Bancorp s automobile loans with a LTV at origination greater than 100% as of June 30, 2012 and 2011, respectively.

TABLE 43: Automobile Loans Outstanding with LTV Greater than 100%

As of June 30, 2012 ($ in millions)				**Net Charge-offs for June 30, 2012**	
By State:	Outstanding	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended

					Ended
Ohio	**$ 406**	**1**		**1**	**1**
Illinois	**248**			**1**	**1**
Michigan	**224**			**1**	**1**
Florida	**192**				
Indiana	**164**				**1**
Kentucky	**143**				**1**
All other states	**2,486**	**3**	**2**	**5**	**9**
Total	**$ 3,863**	**4**	**2**	**8**	**14**

TABLE 44: Automobile Loans Outstanding with LTV Greater than 100%

As of June 30, 2011 ($ in millions)				Net Charge-offs for June 30, 2011	
By State:	Outstanding	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 425	1			2
Illinois	333	1		1	1
Michigan	255				1
Indiana	191				1
Florida	190			1	2
Kentucky	167				1
All other states	2,444	2	1	3	10
Total	$ 4,005	4	1	5	18

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European Exposure

The Bancorp has no direct sovereign exposure to any European nation as of June 30, 2012. In providing services to our customers, the Bancorp routinely enters into financial transactions with foreign domiciled and U.S. subsidiaries of foreign businesses as well as foreign financial institutions. These financial transactions are in the form of loans, loan commitments, letters of credit, derivatives and securities. The Bancorp s risk appetite for foreign country exposure is managed by having established country exposure limits. The Bancorp s total exposure to European domiciled or owned businesses and European financial institutions was $2.3 billion and funded exposure was $1.4 billion as of June 30, 2012. Additionally, the Bancorp was within its established country exposure limits for all European countries.

Certain European countries have been experiencing increased levels of stress throughout 2011 and during the six months ended June 30, 2012 including Greece, Ireland, Italy, Portugal and Spain. The Bancorp s total exposure to businesses domiciled or owned by companies and financial institutions in these countries was approximately $176 million and funded exposure was $119 million as of June 30, 2012. The following table provides detail about the Bancorp s exposure to all European domiciled and owned businesses and financial institutions as of June 30, 2012:

TABLE 45: European Exposure

	Sovereigns		Financial Institutions		Non-Financial Institutions		Total	
($ in millions)	Total Exposure	Funded Exposure	Total Exposure	Funded Exposure	Total Exposure	Funded Exposure	Total Exposure *(a)*	Funded Exposure
Peripheral Europe[(b)]	$		15		161	119	176	119
Other Eurozone [(c)]			25	25	1,297	762	1,322	787
Total Eurozone			40	25	1,458	881	1,498	906
Other Europe [(d)]			25	20	771	441	796	461
Total Europe	$		65	45	2,229	1,322	2,294	1,367

(a) Total exposure includes funded and unfunded commitments, net of collateral; funded exposure excludes unfunded exposure.
(b) Peripheral Europe includes Greece, Ireland, Italy, Portugal and Spain.
(c) Other Eurozone includes countries participating in the European common currency (Euro).
(d) Other Europe includes European countries not part of the Euro (primarily the United Kingdom and Switzerland).

Analysis of Nonperforming Assets

Nonperforming assets include nonaccrual loans and leases for which ultimate collectability of the full amount of the principal and/or interest is uncertain; restructured commercial and credit card loans which have not yet met the requirements to be classified as a performing asset; restructured consumer loans which are 90 days past due based on the restructured terms unless the loan is both well-secured and in the process of collection; and certain other assets, including OREO and other repossessed property. A summary of nonperforming assets is included in Table 46. Residential mortgage loans are placed on nonaccrual status when principal and interest payments have become past due 150 days unless such loans are both well secured and in the process of collection. Residential mortgage loans may stay on nonperforming status for an extended time as the foreclosure process typically lasts longer than 180 days. Typically home equity loans are reported on nonaccrual status if principal or interest has been in default for 180 days or more unless the loan is both well secured and in the process of collection. Automobile and other consumer loans and leases that have been modified in a TDR and subsequently become past due 90 days are placed on nonaccrual status. Credit card loans that have been modified in a TDR are classified as nonaccrual unless such loans have a sustained repayment performance of six months or greater and the Bancorp is reasonably assured of repayment in accordance with the restructured terms. Well secured loans are collateralized by perfected security interests in real and/or personal property for which the Bancorp estimates proceeds from sale would be sufficient to recover the outstanding principal and accrued interest balance of the loan and pay all costs to sell the collateral. The Bancorp considers a loan in the process of collection if collection efforts or legal action is proceeding and the Bancorp expects to collect funds sufficient to bring the loan current or recover the entire outstanding principal and accrued interest balance. When a loan is placed on nonaccrual status, the accrual of interest, amortization of loan premiums, accretion of loan discounts and amortization or accretion of deferred net loan fees or costs are discontinued and previously accrued, but unpaid interest is reversed. Commercial loans on nonaccrual status are reviewed for impairment at least quarterly. If the principal or a portion of the principal is deemed a loss, the loss amount is charged off to the ALLL.

Total nonperforming assets, including loans held for sale, were $1.7 billion at June 30, 2012 compared to $2.0 billion at December 31, 2011 and $2.3 billion at June 30, 2011. At June 30, 2012, $60 million of nonaccrual loans, consisting primarily of real estate secured loans, were held for sale, compared to $138 million and $176 million at December 31, 2011 and June 30, 2011, respectively.

Nonperforming assets as a percentage of total loans, leases and other assets, including OREO and nonaccrual loans held for sale as of June 30, 2012 were 1.99%, compared to 2.32% as of December 31, 2011 and 2.84% as of June 30, 2011. Excluding nonaccrual loans held for sale, nonperforming assets as a percentage of total portfolio loans, leases and other assets, including OREO were 1.96% as of June 30, 2012, compared to 2.23% as of December 31, 2011 and 2.66% as of June 30, 2011. The composition of nonaccrual loans and leases continues to be concentrated in real estate as 69% of nonaccrual loans and leases were secured by real estate as of June 30, 2012 and December 31, 2011 compared with 66% as of June 30, 2011.

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Commercial nonperforming loans and leases were $1.0 billion at June 30, 2012, a decrease of $153 million from December 31, 2011 and a decrease of $386 million from June 30, 2011 due to the impact of loss mitigation actions and moderation in general economic conditions. Excluding commercial nonperforming loans and leases held for sale, commercial nonperforming loans and leases at June 30, 2012 decreased $75 million and $270 compared to December 31, 2011 and June 30, 2011, respectively.

Consumer nonperforming loans and leases were $359 million at June 30, 2012, a decrease of $21 million from December 31, 2011 and a decrease of $27 million from June 30, 2011. The decrease for both periods is due to the continued moderation in general economic conditions in 2012. Home equity nonaccrual levels were flat from December 31, 2011 compared to June 30, 2012 and decreased $4 million compared to June 30, 2011. Geography continues to be a large driver of nonaccrual activity as Florida properties represent approximately 15% and 8% of residential mortgage and home equity balances, respectively, but represent 53% and 19% of nonaccrual loans for each category. Consumer restructured loans on accrual status totaled $1.6 billion at June 30, 2012, December 31, 2011 and June 30, 2011. As of June 30, 2012, the percentage of restructured residential mortgage loans, home equity loans, and credit card loans that are past due 30 days or more are 27%, 13% and 14%, respectively. Refer to Table 47 for a rollforward of the nonperforming loans and leases.

OREO and other repossessed property was $277 million at June 30, 2012, compared to $378 million at December 31, 2011 and $449 million at June 30, 2011. The decrease from December 31, 2011 and June 30, 2011 was primarily due to a decrease in new OREO properties coupled with the sale of large OREO properties and improvements in general economic conditions during 2011 and in the first half of 2012. The Bancorp recognized $22 million and $32 million in losses on the sale or write-down of OREO properties for the three months ended June 30, 2012 and 2011, respectively and $45 million and $109 million for the six months ended June 30, 2012 and 2011, respectively. These losses are primarily reflective of the continued stress in the Michigan and Florida markets for commercial real estate and residential mortgage loans as Michigan and Florida represented 6% and 18%, respectively, of total OREO losses for the six months ended June 30, 2012 compared with 32% and 33%, respectively, for the six months ended June 30, 2011. Properties in Michigan and Florida accounted for 35% of foreclosed real estate at June 30, 2012, compared to 42% at December 31, 2011 and 45% as of June 30, 2011.

For the three and six months ended June 30, 2012 approximately $27 million and $54 million, respectively, of interest income would have been recognized if the nonaccrual and renegotiated loans and leases on nonaccrual status had been current in accordance with their original terms. For the three and six months ended June 30, 2011 approximately $32 million and $65 million, respectively, of interest income would have been recognized. Although these values help demonstrate the costs of carrying nonaccrual credits, the Bancorp does not expect to recover the full amount of interest as nonaccrual loans and leases are generally carried below their principal balance.

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TABLE 46: Summary of Nonperforming Assets and Delinquent Loans

($ in millions)	June 30, 2012	December 31, 2011	June 30, 2011
Nonaccrual loans and leases:			
Commercial and industrial loans	**$ 377**	408	485
Commercial mortgage loans	**357**	358	417
Commercial construction loans	**99**	123	147
Commercial leases	**3**	9	16
Residential mortgage loans	**135**	134	145
Home equity	**30**	25	26
Automobile loans	**1**		1
Other consumer loans and leases		1	3
Restructured loans and leases:			
Commercial and industrial loans	**77**	79	122
Commercial mortgage loans	**57**	63	47
Commercial construction loans	**13**	15	13
Commercial leases		3	6
Residential mortgage loans	**125**	141	127
Home equity	**24**	29	32
Automobile loans	**2**	2	2
Credit card	**42**	48	50
Total nonperforming loans and leases[d]	**1,342**	1,438	1,639
OREO and other repossessed property[c]	**277**	378	449
Total nonperforming assets	**1,619**	1,816	2,088
Nonaccrual loans held for sale	**60**	138	176
Total nonperforming assets including loans held for sale	**$ 1,679**	1,954	2,264
Loans and leases 90 days past due and accruing			
Commercial and industrial loans	**$ 2**	4	7
Commercial mortgage loans	**22**	3	12
Commercial construction loans		1	48
Commercial leases			1
Residential mortgage loans[b]	**80**	79	87
Home equity	**67**	74	84
Automobile loans	**8**	9	10
Credit card and other	**24**	30	30
Total loans and leases 90 days past due and accruing[e]	**$ 203**	200	279
Nonperforming assets as a percent of portfolio loans, leases and other assets, including OREO[a]	**1.96 %**	2.23	2.66
Allowance for loan and lease losses as a percent of nonperforming assets[a]	**125**	124	125

(a) *Excludes nonaccrual loans held for sale.*

(b) *Information for all periods presented excludes advances made pursuant to servicing agreements to GNMA mortgage loan pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. As of* ***June 30, 2012****, these advances were* ***$359****, and as of December 31, 2011 and June 30, 2011 were $309 and $271, respectively. The Bancorp recognized* ***$2*** *of credit losses for both the three and six months ended* ***June 30, 2012*** *and an immaterial amount and $1 for the three and six months ended June 30, 2011, respectively, due to claim denials and curtailments associated with these advances.*

(c) *Excludes* ***$70****, $64 and $54 of OREO related to government insured loans at* ***June 30, 2012****, December 31, 2011, and June 30, 2011, respectively.*

(d) *Includes* ***$13****, $17, and $20 of nonaccrual government insured commercial loans whose repayments are insured by the Small Business Administration at* ***June 30, 2012****, December 31, 2012, and June 30, 2011, respectively, and* ***$1*** *and $2 of restructured nonaccrual government insured loans at* ***June 30, 2012*** *and December 31, 2011, respectively, and an immaterial amount at June 30, 2011.*

(e) *Includes an immaterial amount of government insured commercial loans 90 days past due and accruing whose repayments are insured by the Small Business Administration at* ***June 30, 2012****, December 31, 2011, and June 30, 2011.*

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The following table provides a rollforward of portfolio nonperforming loans and leases, by portfolio segment:

TABLE 47: Rollforward of Portfolio Nonperforming Loans and Leases

For the six months ended June 30, 2012 ($ in millions)	Commercial	Residential Mortgage	Consumer	Total
Beginning Balance	**$ 1,058**	**275**	**105**	**1,438**
Transfers to nonperforming	**371**	**175**	**191**	**737**
Transfers to performing	**(1)**	**(23)**	**(39)**	**(63)**
Transfers to performing (restructured)	**(6)**	**(27)**	**(49)**	**(82)**
Transfers to held for sale	**(6)**			**(6)**
Loans sold from portfolio	**(12)**	**(4)**		**(16)**
Loan paydowns/payoffs	**(217)**	**(53)**	**(7)**	**(277)**
Transfers to OREO	**(51)**	**(37)**		**(88)**
Charge-offs	**(180)**	**(46)**	**(106)**	**(332)**
Draws/other extensions of credit	**27**		**4**	**31**
Ending Balance	**$ 983**	**260**	**99**	**1,342**
For the six months ended June 30, 2011 ($ in millions)				
Beginning Balance	$ 1,214	268	198	1,680
Transfers to nonperforming	669	203	244	1,116
Transfers to performing	(12)	(25)	(45)	(82)
Transfers to performing (restructured)		(45)	(46)	(91)
Transfers to held for sale	(31)			(31)
Loans sold from portfolio	(19)	(1)	(21)	(41)
Loan paydowns/payoffs	(199)	(36)	(9)	(244)
Transfers to OREO	(76)	(33)		(109)
Charge-offs	(305)	(60)	(211)	(576)
Draws/other extensions of credit	12	1	4	17
Ending Balance	$ 1,253	272	114	1,639

Troubled Debt Restructurings

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

At the time of modification, the Bancorp maintains certain consumer loan TDRs (including residential mortgage loans, home equity loans, and other consumer loans) on accrual status, provided there is reasonable assurance of repayment and performance according to the modified terms based upon a current, well-documented credit evaluation. Commercial loan TDRs and credit card TDRs are classified as nonaccrual loans and are typically returned to accrual status upon a six month period of sustained performance under the restructured terms. The following table summarizes TDRs by loan type and delinquency status.

TABLE 48: Performing and Nonperforming TDRs

As of June 30, 2012 (S in millions)	Current	Performing 30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total
Commercial	$ 451	4		147	602
Residential mortgages[(a)]	991	78	71	125	1,265
Home equity	381	34		24	439
Automobile	35	2		2	39
Credit card	42			42	84
Total	$ 1,900	118	71	340	2,429

(a) Information includes advances made pursuant to servicing agreements for GNMA mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. As of June 30, 2012, these advances represented $95 of current loans and $18 of 30-89 days past due loans.

Analysis of Net Loan Charge-offs

Net charge-offs were 88 bps and 156 bps of average loans and leases for the three months ended June 30, 2012 and 2011, respectively and were 98 bps and 174 bps for the six months ended June 30, 2012 and 2011, respectively. Table 49 provides a summary of credit loss experience and net charge-offs as a percentage of average loans and leases outstanding by loan category.

The ratio of commercial loan and lease net charge-offs to average commercial loans and leases decreased to 67 bps and 77 bps during the three and six months ended June 30, 2012 compared to 130 bps and 141 bps during the three and six months ended June 30, 2011. The decreases are a result of decreases in net charge-offs of $63 million and $127 million for the three and six months ended June 30, 2012 from

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the same periods in the prior year coupled with an increase in the average commercial loan and lease balance of $5.4 billion and $4.4 billion, respectively. Decreases in net charge-offs were realized across all commercial loan types, excluding commercial leases, and were primarily due to improvements in general economic conditions and previous actions taken by the Bancorp to address problem loans. Actions taken by the Bancorp include suspending homebuilder and developer lending in 2007 and non-owner occupied commercial real estate lending in 2008 and tightened underwriting standards across all commercial loan product offerings. Net charge-offs for the three and six months ended June 30, 2012 related to non-owner occupied commercial real estate were $16 million and $49 million compared to $52 million and $111 million for the three and six months ended June 30, 2011. Net charge-offs related to non-owner occupied commercial real estate are recorded in the commercial mortgage loans and commercial construction loans captions in Table 49. Net charge-offs on these loans represented 22% and 36% of total commercial loan and lease net charge-offs for the six months ended June 30, 2012 and June 30, 2011, respectively.

The ratio of consumer loan and lease net charge-offs to average consumer loans and leases decreased to 116 bps and 126 bps during the three and six months ended June 30, 2012 compared to 189 bps and 216 bps during the three and six months ended June 30, 2011. Net charge-offs on residential mortgage loans, which typically involve partial charge-offs based upon appraised values of underlying collateral, were flat for the three months ended June 30, 2011 compared to the three months ended June 30, 2012. Residential mortgage loan net charge-offs for the six months ended June 30, 2012 decreased $28 million from the same period in the prior year as a result of improvements in delinquencies and a decrease in the average loss recorded per charge-off. The Bancorp s Florida and Michigan markets accounted for 52% and 15% of net charge-offs on residential mortgage loans in the portfolio during the six months ended June 30, 2012 compared to 61% and 13% for the six months ended June 30, 2011, respectively. The Bancorp expects the composition of the residential mortgage portfolio to improve as it continues to retain high quality, shorter duration residential mortgage loans that are originated through its branch network as a low-cost, refinance product of conforming residential mortgage loans.

Home equity net charge-offs decreased $15 million and $32 million compared to the three and six months ended June 30, 2011, primarily due to decreases in net charge-offs in the Michigan market and reduced net charge-offs of brokered home equity products. Management responded to the performance of the brokered home equity portfolio by eliminating this channel of origination in 2007. In addition, management 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.

Automobile loan net charge-offs decreased $1 million and $13 million compared to the three and six months ended June 30, 2011, due to the origination of high credit quality loans as a result of tighter underwriting standards and higher resale on automobiles sold at auction.

Credit card net charge-offs decreased $10 million and $20 million compared to the three and six months ended June 30, 2011 reflecting improving delinquency trends, aggressive line management, and stabilization in unemployment levels. The Bancorp utilizes a risk-adjusted pricing methodology to ensure adequate compensation is received for those products that have higher credit costs.

Other consumer loan net charge-offs decreased $34 million and $50 million compared to the three and six months ended June 30, 2011, as the prior year period contained charge-offs associated with certain consumer loans that were acquired during the fourth quarter of 2010 when the Bancorp foreclosed on a commercial loan that was collateralized by individual consumer loans.

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TABLE 49: Summary of Credit Loss Experience

($ in millions)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Losses charged off:				
Commercial and industrial loans	$ **(53)**	(86)	**(112)**	(176)
Commercial mortgage loans	**(28)**	(51)	**(65)**	(109)
Commercial construction loans	**(6)**	(21)	**(26)**	(48)
Commercial leases	**(8)**		**(8)**	(1)
Residential mortgage loans	**(38)**	(37)	**(76)**	(104)
Home equity	**(43)**	(58)	**(93)**	(124)
Automobile loans	**(13)**	(18)	**(29)**	(47)
Credit card	**(24)**	(31)	**(47)**	(63)
Other consumer loans and leases	**(6)**	(41)	**(16)**	(68)
Total losses	**(219)**	(343)	**(472)**	(740)
Recoveries of losses previously charged off:				
Commercial and industrial loans	**7**	10	**13**	17
Commercial mortgage loans	**3**	4	**10**	8
Commercial construction loans	**6**	1	**9**	2
Commercial leases	**1**	2	**1**	2
Residential mortgage loans	**2**	1	**3**	3
Home equity	**4**	4	**8**	7
Automobile loans	**6**	10	**13**	18
Credit card	**6**	3	**9**	5
Other consumer loans and leases	**3**	4	**5**	7
Total recoveries	**38**	39	**71**	69
Net losses charged off:				
Commercial and industrial loans	**(46)**	(76)	**(99)**	(159)
Commercial mortgage loans	**(25)**	(47)	**(55)**	(101)
Commercial construction loans		(20)	**(17)**	(46)
Commercial leases	**(7)**	2	**(7)**	1
Residential mortgage loans	**(36)**	(36)	**(73)**	(101)
Home equity	**(39)**	(54)	**(85)**	(117)
Automobile loans	**(7)**	(8)	**(16)**	(29)
Credit card	**(18)**	(28)	**(38)**	(58)
Other consumer loans and leases	**(3)**	(37)	**(11)**	(61)
Total net losses charged off	$ **(181)**	(304)	**(401)**	(671)
Net charge-offs as a percent of average loans and leases (excluding held for sale):				
Commercial and industrial loans	**0.57 %**	1.10	**0.62**	1.16
Commercial mortgage loans	**1.04**	1.83	**1.11**	1.94
Commercial construction loans	**(0.12)**	4.09	**3.83**	4.68
Commercial leases	**0.87**	(0.25)	**0.44**	(0.10)

Total commercial loans	**0.67**	1.30	**0.77**	1.41
Residential mortgage loans	**1.28**	1.50	**1.33**	2.15
Home equity	**1.50**	1.94	**1.63**	2.08
Automobile loans	**0.21**	0.29	**0.27**	0.51
Credit card	**3.78**	6.08	**3.98**	6.34
Other consumer loans and leases	**3.95**	26.47	**4.75**	21.45
Total consumer loans and leases	**1.16**	1.89	**1.26**	2.16
Total net losses charged off	**0.88 %**	1.56	**0.98**	1.74

Allowance for Credit Losses

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

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The ALLL attributable to the portion of the residential and consumer loan and lease portfolio that has not been restructured is determined on a pooled basis with the segmentation being based on the similarity of credit risk characteristics. Loss factors for real estate backed consumer loans are developed for each pool based on the trailing twelve month historical loss rate, as adjusted for certain prescriptive loss rate factors and certain qualitative adjustment factors. The prescriptive loss rate factors and qualitative adjustments are designed to reflect risks associated with current conditions and trends which are not believed to be fully reflected in the trailing twelve month historical loss rate. For real estate backed consumer loans, the prescriptive loss rate factors include adjustments for delinquency trends, LTV trends, refreshed FICO score trends and product mix, and the qualitative factors include adjustments for credit administration and portfolio management practices, credit policy and underwriting practices and the national and local economy. The Bancorp considers home price index trends in its footprint when determining the national and local economy qualitative factor. The Bancorp also considers the volatility of collateral valuation trends when determining the unallocated component of the ALLL.

TABLE 50: Changes in Allowance for Credit Losses

($ in millions)	For the three months ended June 30, **2012**	2011	For the six months ended June 30, **2012**	2011
ALLL:				
Balance, beginning of period	**$ 2,126**	2,805	**2,255**	3,004
Losses charged off	**(219)**	(343)	**(472)**	(740)
Recoveries of losses previously charged off	**38**	39	**71**	69
Provision for loan and lease losses	**71**	113	**162**	281
Balance, end of period	**$ 2,016**	2,614	**2,016**	2,614
Reserve for unfunded commitments:				
Balance, beginning of period	**$ 179**	211	**181**	231
Provision for loan and lease losses	**(1)**	(14)	**(3)**	(34)
Balance, end of period	**$ 178**	197	**178**	197

In the first half of 2012, the Bancorp did not substantively change any material aspect of its overall approach in the determination of the ALLL and there have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. In addition to the ALLL, the Bancorp maintains a reserve for unfunded commitments recorded in other liabilities in the Condensed Consolidated Balance Sheets. The methodology used to determine the adequacy of this reserve is similar to the Bancorp s methodology for determining the ALLL. The provision for unfunded commitments is included in other noninterest expense in the Condensed Consolidated Statements of Income.

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

An unallocated component to the ALLL is maintained to recognize the imprecision in estimating and measuring loss. The unallocated allowance as a percent of total portfolio loans and leases was 0.15% at June 30, 2012 and 0.17% at December 31, 2011 and June 30, 2011. The unallocated allowance was flat at six percent of the total allowance from December 31, 2011 to June 30, 2012, and was five percent at June 30, 2011. The increase in the unallocated allowance as a percentage of the total allowance from June 30, 2011 was driven by additional sustained market volatility in the U.S. markets that has provided indications that loss events may be occurring at a rate greater than the rate captured within the Bancorp s model.

As shown in Table 51, the ALLL as a percent of the total loan and lease portfolio was 2.45% at June 30, 2012 compared to 2.78% at December 31, 2011 and 3.35% at June 30, 2011. The ALLL was $2.0 billion as of June 30, 2012, compared to $2.3 billion as of December 31, 2011 and $2.6 billion at June 30, 2011. The decreases from both prior periods is reflective of a number of factors including decreases in nonperforming loans and leases, improved delinquency metrics in commercial and consumer loans and leases and improvement in underlying loss trends.

The Bancorp s determination of the ALLL for commercial loans is sensitive to the risk grades it assigns to these loans. In the event that 10% of commercial loans in each risk category would experience a downgrade of one risk category, the allowance for commercial loans would increase by approximately $148 million at June 30, 2012. In addition, the Bancorp s determination of the allowance for residential and consumer loans is sensitive to changes in estimated loss rates. In the event that estimated loss rates would increase by 10%, the allowance for residential and consumer loans would increase by approximately $55 million at June 30, 2012. As several qualitative and quantitative factors are considered in determining the ALLL, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the ALLL. They are intended to provide insights into the impact of adverse changes to risk grades and estimated loss rates and do not imply any

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expectation of future deterioration in the risk ratings or loss rates. Given current processes employed by the Bancorp, management believes the risk grades and estimated loss rates currently assigned are appropriate.

TABLE 51: Attribution of Allowance for Loan and Lease Losses to Portfolio Loans and Leases

($ in millions)	**June 30, 2012**	December 31, 2011	June 30, 2011
Allowance attributed to:			
Commercial and industrial loans	**$ 841**	929	1,077
Commercial mortgage loans	**383**	441	485
Commercial construction loans	**49**	77	108
Commercial leases	**74**	80	94
Residential mortgage loans	**232**	227	268
Home equity	**169**	195	231
Automobile loans	**37**	43	61
Credit card	**90**	106	136
Other consumer loans and leases	**20**	21	24
Unallocated	**121**	136	130
Total ALLL	**$ 2,016**	2,255	2,614
Portfolio loans and leases:			
Commercial and industrial loans	**$ 32,612**	30,783	28,099
Commercial mortgage loans	**9,662**	10,138	10,233
Commercial construction loans	**822**	1,020	1,778
Commercial leases	**3,467**	3,531	3,326
Residential mortgage loans	**11,429**	10,672	9,849
Home equity	**10,377**	10,719	11,048
Automobile loans	**11,739**	11,827	11,315
Credit card	**1,943**	1,978	1,856
Other consumer loans and leases	**308**	350	463
Total portfolio loans and leases	**$ 82,359**	81,018	77,967
Attributed allowance as a percent of respective portfolio loans and leases:			
Commercial and industrial loans	**2.58 %**	3.02	3.83
Commercial mortgage loans	**3.96**	4.35	4.74
Commercial construction loans	**5.96**	7.55	6.07
Commercial leases	**2.13**	2.27	2.83
Residential mortgage loans	**2.03**	2.13	2.72
Home equity	**1.63**	1.82	2.09
Automobile loans	**0.32**	0.36	0.54
Credit card	**4.63**	5.36	7.33
Other consumer loans and leases	**6.49**	6.00	5.18
Unallocated (as a percent of total portfolio loans and leases)	**0.15**	0.17	0.17
Attributed allowance as a percent of total portfolio loans and leases	**2.45 %**	2.78	3.35

MARKET RISK MANAGEMENT

Market risk arises from the potential for market fluctuations in interest rates, foreign exchange rates and equity prices that may result in potential reductions in net income. Interest rate risk, a component of market risk, is the exposure to adverse changes in net interest income or financial position due to changes in interest rates. Management considers interest rate risk a prominent market risk in terms of its potential impact on earnings. Interest rate risk can occur for any one or more of the following reasons:

- Assets and liabilities may mature or reprice at different times;
- Short-term and long-term market interest rates may change by different amounts; or
- The expected maturity of various assets or liabilities may shorten or lengthen as interest rates change.

In addition to the direct impact of interest rate changes on net interest income, interest rates can indirectly impact earnings through their effect on loan demand, credit losses, mortgage originations, the value of servicing rights and other sources of the Bancorp s earnings. Stability of the Bancorp s net income is largely dependent upon the effective management of interest rate risk. Management continually reviews the Bancorp s balance sheet composition and earnings flows and models the interest rate risk, and possible actions to reduce this risk, given numerous possible future interest rate scenarios.

Net Interest Income Simulation Model

The Bancorp utilizes a variety of measurement techniques to identify and manage its interest rate risk, including the use of an NII simulation model to analyze the sensitivity of net interest income to changing interest rates. The model is based on contractual and assumed cash flows

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and repricing characteristics for all of the Bancorp s financial instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The model also includes senior management s projections of the future volume and pricing of each of the product lines offered by the Bancorp as well as other pertinent assumptions. Actual results may differ from these simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

The Bancorp s Executive ALCO, which includes senior management representatives and is accountable to the Enterprise Risk Management Committee, monitors and manages interest rate risk within Board approved policy limits. In addition to the risk management activities of ALCO, the Bancorp has a Market Risk Management function as part of ERM that provides independent oversight of market risk activities. The Bancorp s interest rate risk exposure is currently evaluated by measuring the anticipated change in net interest income over 12 month and 24 month horizons assuming a 100 bps parallel ramped increase and a 200 bps parallel ramped increase in interest rates. The Fed Funds interest rate, targeted by the Federal Reserve at a range of 0% to 0.25%, is currently set at a level that would be negative in parallel ramped decrease scenarios; therefore, those scenarios were omitted from the interest rate risk analyses at June 30, 2012. In accordance with the current policy, the rate movements are assumed to occur over one year and are sustained thereafter.

At June 30, 2012, the Bancorp s interest rate risk profile reflects moderate asset sensitivity in year one in contrast to a relatively neutral profile at June 30, 2011 with year two asset sensitivity increases from year one at both June 30, 2012 and June 30, 2011. The following table shows the Bancorp s estimated net interest income sensitivity profile and ALCO policy limits as of June 30:

TABLE 52: Estimated NII Sensitivity Profile

	2012 % Change in NII (FTE)		2011 % Change in NII (FTE)		ALCO Policy Limits	
Change in Interest Rates (bps)	12 Months	13 to 24 Months	12 Months	13 to 24 Months	12 Months	13 to 24 Months
+ 200	**2.42 %**	**8.91**	0.42 %	6.09	(5.00)	(7.00)
+ 100	**1.06**	**4.18**	0.20	3.27		

Changes in net interest income at risk at June 30, 2012 compared to June 30, 2011 are the result of growth in core deposit balances and lower market interest rates, partially offset by increases in fixed-rate loan balances.

Economic Value of Equity

The Bancorp also utilizes EVE as a measurement tool in managing interest rate risk. Whereas the net interest income simulation model highlights exposures over a relatively short time horizon, the EVE analysis incorporates all cash flows over the estimated remaining life of all balance sheet and derivative positions. The EVE of the balance sheet, at a point in time, is defined as the discounted present value of asset and net derivative cash flows less the discounted value of liability cash flows. The sensitivity of EVE to changes in the level of interest rates is a measure of longer-term interest rate risk. EVE values only the current balance sheet and does not incorporate the growth assumptions used in the earnings simulation model. As with the earnings simulation model, assumptions about the timing and variability of existing balance sheet cash flows are critical in the EVE analysis. Particularly important are assumptions driving loan and security prepayments and the expected balance attrition and pricing of transaction deposit portfolios.

The following table shows the Bancorp s EVE sensitivity profile as of June 30:

TABLE 53: Estimated EVE Sensitivity Profile

Change in Interest Rates (bps)	**2012** Change in EVE	2011 Change in EVE	ALCO Policy Limits
+ 200	**1.18 %**	(1.94)%	(15.00)
+ 100	**1.00**	(0.49)	
+ 25	**0.32**	(0.04)	
- 25	**(0.30)**	(0.17)	

The EVE at risk profile suggests a positive effect from market rate increases of +25 bps through the +200 bps scenarios for 2012. The EVE at risk reported at June 30, 2012 for the +200 basis points scenario shows a change to a modest asset sensitive position compared to June 30, 2011. The primary factors contributing to the change are the decline in market interest rates over this time period, growth in core deposits and changes in the MSR risk profile, partially offset by the impact of an increase in fixed-rate loan balances.

While an instantaneous shift in interest rates is used in this analysis to provide an estimate of exposure, the Bancorp believes that a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (e.g., the current fiscal year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships and changing product spreads that could mitigate or exacerbate the impact of changes in

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interest rates. The NII simulations and EVE analyses do not necessarily include certain actions that management may undertake to manage risk in response to anticipated changes in interest rates.

The Bancorp regularly evaluates its exposures to LIBOR and Prime basis risks, nonparallel shifts in the yield curve and embedded options risk. In addition, the impact on NII and EVE of extreme changes in interest rates is modeled, wherein the Bancorp employs the use of yield curve shocks and environment-specific scenarios.

Use of Derivatives to Manage Interest Rate Risk

An integral component of the Bancorp s interest rate risk management strategy is its use of derivative instruments to minimize significant fluctuations in earnings caused by changes in market interest rates. Examples of derivative instruments that the Bancorp may use as part of its interest rate risk management strategy include interest rate swaps, interest rate floors, interest rate caps, forward contracts, principal only swaps, options, swaptions and TBA securities.

As part of its overall risk management strategy relative to its mortgage banking activity, the Bancorp enters into forward contracts accounted for as free-standing derivatives to economically hedge interest rate lock commitments that are also considered free-standing derivatives. Additionally, the Bancorp economically hedges its exposure to mortgage loans held for sale through the use of forward contracts and mortgage options.

The Bancorp also establishes derivative contracts with major financial institutions to economically hedge significant exposures assumed in commercial customer accommodation derivative contracts. Generally, these contracts have similar terms in order to protect the Bancorp from market volatility. Credit risk arises from the possible inability of counterparties to meet the terms of their contracts, which the Bancorp minimizes through collateral arrangements, approvals, limits and monitoring procedures. For further information including the notional amount and fair values of these derivatives, see Note 10 of the Notes to Condensed Consolidated Financial Statements.

Portfolio Loans and Leases and Interest Rate Risk

Although the Bancorp s portfolio loans and leases contain both fixed and floating/adjustable rate products, the rates of interest earned by the Bancorp on the outstanding balances are generally established for a period of time. The interest rate sensitivity of loans and leases is directly related to the length of time the rate earned is established. Table 54 summarizes the expected principal cash flows of the Bancorp s portfolio loans and leases as of June 30, 2012.

TABLE 54: Portfolio Loan and Lease Contractual Maturities

As of June 30, 2012 ($ in millions)	Less than 1 year	1-5 years	Over 5 years	Total
Commercial and industrial loans	$ 9,908	20,603	2,101	32,612
Commercial mortgage loans	4,593	4,074	995	9,662
Commercial construction loans	395	270	157	822
Commercial leases	569	1,465	1,433	3,467
Subtotal - commercial loans and leases	15,465	26,412	4,686	46,563
Residential mortgage loans	3,718	4,493	3,218	11,429
Home equity	1,120	2,692	6,565	10,377
Automobile loans	4,711	6,808	220	11,739
Credit card	554	1,389		1,943

Other consumer loans and leases		271	34	3	308
Subtotal - consumer loans and leases		10,374	15,416	10,006	35,796
Total	$	25,839	41,828	14,692	82,359

Additionally, Table 55 displays a summary of expected principal cash flows occurring after one year for both fixed and floating/adjustable rate loans as of June 30, 2012.

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TABLE 55: Portfolio Loan and Lease Principal Cash Flows Occurring After One Year

	Interest Rate	
As of June 30, 2012 ($ in millions)	Fixed	Floating or Adjustable
Commercial and industrial loans	$ 3,783	18,921
Commercial mortgage loans	1,643	3,426
Commercial construction loans	145	282
Commercial leases	2,898	
Subtotal - commercial loans and leases	8,469	22,629
Residential mortgage loans	5,689	2,022
Home equity	1,195	8,062
Automobile loans	6,980	48
Credit card	581	808
Other consumer loans and leases	15	22
Subtotal - consumer loans and leases	14,460	10,962
Total	$ 22,929	33,591

Residential Mortgage Servicing Rights and Interest Rate Risk

The net carrying amount of the residential MSR portfolio was $736 million, $681 million and $847 million as of June 30, 2012, December 31, 2011 and June 30, 2011, respectively. The value of servicing rights can fluctuate sharply depending on changes in interest rates and other factors. Generally, as interest rates decline and loans are prepaid to take advantage of refinancing, the total value of existing servicing rights declines because no further servicing fees are collected on repaid loans. The Bancorp maintains a non-qualifying hedging strategy relative to its mortgage banking activity in order to manage a portion of the risk associated with changes in the value of its MSR portfolio as a result of changing interest rates.

Mortgage rates decreased slightly during both the second quarter of 2012 and the same period in the prior year. This caused modeled prepayments speeds to increase, which led to $60 million in temporary impairment on servicing rights during the three months ended June 30, 2012 compared to $64 million in temporary impairment on servicing rights during the three months ended June 30, 2011. Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing rates. Temporary impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. In addition to the mortgage servicing rights valuation, the Bancorp recognized net gains of $38 million on its non-qualifying hedging strategy for the three months ended June 30, 2012, compared to net gains of $129 million for the three months ended June 30, 2011. Net losses on the sale of securities related to the Bancorp s non-qualifying hedging strategy were immaterial for the second quarter of both 2012 and 2011. During the fourth quarter of 2011, the Bancorp assessed the composition of its MSR portfolio, the cost of hedging and the anticipated effectiveness of the hedges given the economic environment. Based on this review, the Bancorp adjusted its MSR hedging strategy to exclude the hedging of MSRs related to certain mortgage loans originated in 2008 and prior, representing approximately 18% of the carrying value of the MSR portfolio as of June 30, 2012. The prepayment behavior of these loans is expected to be less sensitive to changes in interest rates as tighter industry underwriting standards, borrower credit characteristics and home price values have had a greater impact on prepayment speeds. Thus, the predictive power of traditional prepayment models that are based solely on the historical dependency of prepayment speeds on market interest rates may not be reliable for these loans. As a result, the Bancorp has considered these additional factors as it models prepayment speeds when valuing the MSRs. The Bancorp utilizes valuation opinions from servicing brokers, peer surveys and its historical prepayment experience in validating the modeled prepayment speeds utilized in the fair value measurement of the MSRs. As these additional factors have had an impact on prepayment speeds, the effectiveness of traditional hedging strategies utilizing benchmark interest rate based derivatives has been reduced. In addition to the market factors that impact prepayment speeds, the Bancorp is exposed to prepayment risk on these loans in the event borrowers refinance at higher than expected levels due to government intervention or other factors. The Bancorp continues to monitor the performance of these MSRs and may decide to hedge this portion of the MSR portfolio in future periods. See Note 9 of the Notes to Condensed Consolidated Financial Statements for further discussion on servicing rights and the instruments used to hedge interest rate risk on MSRs.

Foreign Currency Risk

The Bancorp may enter into foreign exchange derivative contracts to economically hedge certain foreign denominated loans. The derivatives are classified as free-standing instruments with the revaluation gain or loss being recorded in other noninterest income in the Condensed Consolidated Statements of Income. The balance of the Bancorp s foreign denominated loans at June 30, 2012, December 31, 2011 and June 30, 2011 was $387 million, $374 million and $369 million, respectively. The Bancorp also enters into foreign exchange contracts for the benefit of commercial customers involved in international trade to hedge their exposure to foreign currency fluctuations. The Bancorp has internal controls in place to help ensure excessive risk is not being taken in providing this service to customers. These controls include an independent determination of currency volatility and credit equivalent exposure on these contracts, counterparty credit approvals and country limits.

LIQUIDITY RISK MANAGEMENT

The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand, unexpected levels of deposit withdrawals and other contractual obligations. Mitigating liquidity risk is accomplished by maintaining liquid assets in the form of investment securities, maintaining sufficient unused borrowing capacity in the debt markets and delivering consistent growth in core deposits. A summary of certain obligations and commitments to make future payments under contracts is included in Note 12 of the Notes to Condensed Consolidated Financial Statements.

The Bancorp maintains a contingency funding plan that assesses the liquidity needs under various scenarios of market conditions, asset growth and credit rating downgrades. The plan includes liquidity stress testing which measures various sources and uses of funds under the different scenarios. The contingency plan provides for ongoing monitoring of unused borrowing capacity and available sources of contingent liquidity to prepare for unexpected liquidity needs and to cover unanticipated events that could affect liquidity.

Sources of Funds

The Bancorp s primary sources of funds relate to cash flows from loan and lease repayments, payments from securities related to sales and maturities, the sale or securitization of loans and leases and funds generated by core deposits, in addition to the use of public and private debt offerings.

Projected contractual maturities from loan and lease repayments are included in Table 54 of the Market Risk Management section of MD&A. Of the $15.6 billion of securities in the Bancorp s available-for-sale portfolio at June 30, 2012, $4.1 billion in principal and interest is expected to be received in the next 12 months and an additional $2.6 billion is expected to be received in the next 13 to 24 months. For further information on the Bancorp s securities portfolio, see the Investment Securities subsection of the Balance Sheet Analysis section of MD&A.

Asset-driven liquidity is provided by the Bancorp s ability to sell or securitize loan and lease assets. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, the Bancorp has developed securitization and sale procedures for several types of interest-sensitive assets. A majority of the long-term, fixed-rate single-family residential mortgage loans underwritten according to FHLMC or FNMA guidelines are sold for cash upon origination. Additional assets such as residential mortgages, certain commercial loans, home equity loans, automobile loans and other consumer loans are also capable of being securitized or sold. The Bancorp sold loans totaling $4.7 billion and $11.6 billion, respectively, for the three and six months ended June 30, 2012. During the three and six months ended June 30, 2011, the Bancorp sold loans totaling $2.7 billion and $6.7 billion, respectively. For further information on the transfer of financial assets, see Note 9 of the Notes to Condensed Consolidated Financial Statements.

Core deposits have historically provided the Bancorp with a sizeable source of relatively stable and low cost funds. The Bancorp s average core deposits and shareholders equity funded 81% of its average total assets for the second quarter of 2012, fourth quarter of 2011 and second quarter of 2011. In addition to core deposit funding, the Bancorp also accesses a variety of other short-term and long-term funding sources, which include the use of the FHLB system. Certificates of deposit carrying a balance of $100,000 or more and deposits in the Bancorp s foreign branch located in the Cayman Islands are wholesale funding tools utilized to fund asset growth. Management does not rely on any one source of liquidity and manages availability in response to changing balance sheet needs.

The Bancorp has a shelf registration in place with the SEC permitting ready access to the public debt markets and qualifies as a well-known seasoned issuer under the SEC rules. As of June 30, 2012, $5.6 billion of debt or other securities were available for issuance from this shelf registration under the current Bancorp s Board of Directors authorizations; however, access to these markets may depend on market conditions. The Bancorp also has $19.0 billion of funding available for issuance through private offerings of debt securities pursuant to its bank note program and currently has approximately $32.1 billion of borrowing capacity available through secured borrowing sources including the FHLB and FRB.

On March 7, 2012, the Bancorp issued $500 million in aggregate principal amount of 3.50% Senior Notes due March 15, 2022. See Note 11 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Senior Notes.

On August 8, 2012, the Bancorp redeemed all $862.5 million of the outstanding TruPS issued by Fifth Third Capital Trust VI. The Fifth Third Capital Trust VI securities had a current distribution rate of 7.25% and a scheduled maturity date of November 15, 2067, although they were redeemable at any time on or after November 15, 2012 or at any time prior to November 15, 2012 within 90 days of the occurrence of a Capital Treatment Event. In addition, on August 15, 2012, the Bancorp will redeem all $575 million of the outstanding TruPS issued by Fifth Third Capital Trust V. The Fifth Third Capital Trust V securities have a current distribution rate of 7.25% and a scheduled maturity date of August 15, 2067, and may be redeemed at any time on or after August 15, 2012. See Note 21 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the TruPS.

Credit Ratings

The cost and availability of financing to the Bancorp are impacted by its credit ratings. A downgrade to the Bancorp s credit ratings could affect its ability to access the credit markets and increase its borrowing costs, thereby adversely impacting the Bancorp s financial condition

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and liquidity. Key factors in maintaining high credit ratings include a stable and diverse earnings stream, strong credit quality, strong capital ratios and diverse funding sources, in addition to disciplined liquidity monitoring procedures.

The Bancorp s senior debt credit ratings are summarized in Table 56. The ratings reflect the ratings agencies view on the Bancorp s capacity to meet financial commitments. * Additional information on senior debt credit ratings is as follows:

Moody s Baa1 rating is considered a medium-grade obligation and is the fourth highest ranking within its overall classification system;

Standard & Poor s BBB rating indicates the obligor s capacity to meet its financial commitment is adequate and is the fourth highest ranking within its overall classification system;

Fitch Ratings A- rating is considered high credit quality and is the third highest ranking within its overall classification system; and

DBRS Ltd. s A (low) rating is considered satisfactory credit quality and is the third highest ranking within its overall classification system.

* *As an investor, you should be aware that a security rating is not a recommendation to buy, sell or hold securities, that it may be subject to revision or withdrawal at any time by the assigning rating organization and that each rating should be evaluated independently of any other rating.*

TABLE 56: Agency Ratings

As of August 8, 2012	Moody s	Standard and Poor s	Fitch	DBRS
Fifth Third Bancorp:				
Short-term	No rating	A-2	F1	R-1L
Senior debt	Baa1	BBB	A-	AL
Subordinated debt	Baa2	BBB-	BBB+	BBBH
Fifth Third Bank:				
Short-term	P-2	A-2	F1	R-1L
Long-term deposit	A3	No rating	A	A
Senior debt	A3	BBB+	A-	A
Subordinated debt	Baa1	BBB	BBB+	A (low)

CAPITAL MANAGEMENT

Management regularly reviews the Bancorp s capital position to help ensure it is appropriately positioned under various operating environments. The Bancorp has established a Capital Committee, which is responsible for all capital related decisions. The Capital Committee makes recommendations to management involving capital actions. These recommendations are reviewed and approved by the Enterprise Risk Management Committee.

Capital Ratios

The U.S banking agencies established quantitative measures that assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements. The U.S. banking agencies define well capitalized ratios for Tier I and total risk-based capital as 6% and 10%, respectively. The Bancorp exceeded these well-capitalized ratios for all periods presented.

The Basel II advanced approach framework was finalized by U.S. banking agencies in 2007. Core banks, defined as those with consolidated total assets in excess of $250 billion or on balance sheet foreign exposures of $10 billion were required to adopt the advanced approach effective April 1, 2008. The Bancorp is not subject to the requirements of Basel II.

The Dodd-Frank Act requires more stringent prudential standards, including capital and liquidity requirements, for larger institutions. It addresses the quality of capital components by limiting the degree to which certain hybrid instruments can be included. The Dodd-Frank Act will phase out the inclusion of certain TruPS as a component of Tier I risk-based capital beginning January 1, 2013. At June 30, 2012, the Bancorp s Tier I risk-based capital included $2.2 billion of TruPS representing approximately 211 bps of risk-weighted assets.

In December of 2010 and revised in June of 2011, the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. In June of 2012, U.S. banking regulators proposed enhancements to the regulatory capital requirements for U.S. banks, which implement aspects of Basel III, such as re-defining the regulatory capital elements and minimum capital ratios, introducing regulatory capital buffers above those minimums, revising the agencies rules for calculating risk-weighted assets and introducing a new Tier I common equity ratio. The Bancorp continues to evaluate these proposals and their potential impact. Its current estimate of the pro-forma fully phased in Tier I common equity ratio at June 30, 2012 under the proposed capital rules is approximately 9%* compared with 9.77% as calculated under the existing Basel I capital framework. The primary drivers of the change from the existing Basel I capital framework to the Basel III proposal are an increase in Tier I common equity of approximately 50 bp (primarily from including AOCI) which would be more than offset by the impact of increases in risk-weighted assets (primarily from 1-4 family senior and junior lien residential mortgages and commitments with an original maturity of one year or less). The pro forma Tier I common equity ratio exceeds the proposed minimum Tier I common equity ratio of 7% comprised of a minimum of 4.5% plus a capital conservation buffer of 2.5%. The pro forma Tier I common equity ratio does not include the effect of any mitigating actions the Bancorp may

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undertake to offset the impact of the proposed capital enhancements. For further discussion on the Basel I Tier I common equity ratio, see the Non-GAAP Financial Measures section of MD&A.

* *The pro forma Tier I common equity ratio is management s estimate based upon its current interpretation of the three draft Federal Register notices proposing enhancements to regulatory capital requirements published in June 2012. The actual impact to the Bancorp s Tier I common equity ratio may change significantly due to further clarification of the agencies proposals or revisions to the agencies final rules, which remain subject to public comment.*

TABLE 57: Capital Ratios

($ in millions)	**June 30, 2012**	December 31, 2011	June 30, 2011
Average equity as a percent of average assets	**11.58 %**	11.41	11.12
Tangible equity as a percent of tangible assets [(a)]	**9.50**	9.03	9.01
Tangible common equity as a percent of tangible assets [(a)]	**9.15**	8.68	8.64
Tier I capital	**$ 13,093**	12,503	11,972
Total risk-based capital	**17,281**	16,885	16,085
Risk-weighted assets [(b)]	**106,398**	104,945	100,320
Regulatory capital ratios:			
Tier I capital	**12.31 %**	11.91	11.93
Total risk-based capital	**16.24**	16.09	16.03
Tier I leverage	**11.39**	11.10	11.03
Tier I common equity [(a)]	**9.77**	9.35	9.20

a) *For further information on these ratios, see the Non-GAAP Financial Measures section of the MD&A.*

b) *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 resulting in the Bancorp s total risk-weighted assets.*

Under the Dodd-Frank Act financial reform legislation, TruPS were to be phased out of Tier I capital over three years beginning in 2013. The new regulations proposed by U.S. banking regulators also propose to cease Tier I capital treatment for outstanding TruPS with a similar phasing period. On August 8, 2012, The Bancorp redeemed all $862.5 million of Capital Trust VI TruPS due to a determination of a Capital Treatment Event. On July 2, 2012, the Bancorp announced that it submitted a redemption notice to call the $575 million of Capital Trust V TruPS on August 15, 2012. The pro forma regulatory capital ratios for the Bancorp as of June 30, 2012, including the impact of the Bancorp s call of $1.4 billion in TruPS in July of 2012, were as follows: Tier I capital ratio of 10.95%, Total risk-based capital ratio of 14.89% and Tier I leverage ratio of 10.14%.

2012 Capital Actions

As part of the 2012 CCAR, on January 9, 2012, the Bancorp submitted to the FRB a capital plan approved by its Board of Directors covering the period from January 1, 2012 to March 31, 2013. The mandatory elements of the capital plan are an assessment of the expected use and sources of capital over the planning horizon, a description of all planned capital actions over the planning horizon, a discussion of any expected changes to the Bancorp s business plan that are likely to have a material impact on its capital adequacy or liquidity, a detailed description of the Bancorp s process for assessing capital adequacy and the Bancorp s capital policy.

The FRB assessed the comprehensiveness of the capital plan, the reasonableness of the assumptions and the analysis underlying the capital plan and reviewed the robustness of the capital adequacy process, the capital policy and the Bancorp s ability to maintain capital above the minimum regulatory capital ratio and above a Tier I common ratio of 5 percent on a pro forma basis under expected and stressful conditions throughout the planning horizon.

On March 13, 2012 the Bancorp announced the FRB s response to the capital plan it submitted as part of the 2012 CCAR. The FRB indicated 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 TruPS; and the repurchase of common shares in an amount equal to any after-tax gains realized by Fifth Third from the sale of Vantiv, Inc. common shares by either Fifth Third or Vantiv, Inc.

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. The Bancorp resubmitted its capital plan to the FRB on June 8, 2012 and expects to receive a response within approximately 75 days of the resubmission date. The resubmitted plan included capital actions and distributions for the covered period through March 31, 2013 that were substantially similar to those included in the original submission, with adjustments primarily reflecting the change in the expected timing of capital actions and distributions relative to the timing assumed in the original submission.

Dividend Policy and Stock Repurchase Program

The Bancorp s common stock dividend policy and stock repurchase program reflect its earnings outlook, desired payout ratios, the need to maintain adequate capital levels, the ability of its subsidiaries to pay dividends, the need to comply with safe and sound banking practices as

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well as meet regulatory requirements and expectations. The Bancorp declared dividends per common share of $0.08 and $0.06 during the second quarter of 2012 and 2011, respectively, and $0.16 and $0.12 for the six months ended June 30, 2012 and 2011, respectively.

On April 23, 2012, the Bancorp entered into an accelerated share repurchase transaction with a counterparty pursuant to which the Bancorp purchased 4,838,710 shares or approximately $75 million of its outstanding common stock on April 26, 2012. As part of this transaction, the Bancorp entered into a forward contract in which the final number of shares delivered at settlement of the accelerated share repurchase transaction was based on a discount to the average daily volume-weighted average price of the Bancorp s common stock during the term of the Repurchase Agreement. The accelerated share repurchase was treated as two separate transactions (i) the acquisition of treasury shares on the acquisition date and (ii) a forward contract indexed to the Bancorp s stock. At settlement of the forward contract on June 1, 2012, the Bancorp received an additional 631,986 shares which were recorded as an adjustment to the basis in the treasury shares purchased on the acquisition date.

Upon completion of the accelerated share repurchase transaction, the Bancorp has remaining authority to repurchase approximately 14 million shares under its previously announced share repurchase program.

TABLE 58: Share Repurchases

Period	Total Number of Shares Purchases[(a)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs[(b)]
April 1, 2012 - April 30, 2012	4,838,710	$ 15.50	4,838,710	14,362,808
May 1, 2012 - May 31, 2012				14,362,808
June 1, 2012 - June 30, 2012	631,986	[(c)]	631,986	13,730,822
Total	5,470,696	$ 13.71	5,470,696	13,730,822

(a) *The Bancorp repurchased 1,530,032 shares during the second quarter of 2012 in connection with various employee compensation plans. These purchases are not included in the calculation for average price paid per share and do not count against the maximum number of shares that may yet be purchased under the Board of Directors authorization.*

(b) *In May 2007, the Bancorp announced that its Board of Directors had authorized management to purchase 30 million shares of the Bancorp s common stock through the open market or in any private transaction. The authorization does not include specific price targets or an expiration date.*

(c) *Shares received from the counterparty as final settlement of the Repurchase Agreement.*

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, the Bancorp enters into financial transactions to extend credit and various forms of commitments and guarantees that may be considered off-balance sheet arrangements. These transactions involve varying elements of market, credit and liquidity risk. Refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for additional information. A discussion of these transactions is as follows:

Residential Mortgage Loan Sales

Conforming residential mortgage loans sold to unrelated third parties are generally sold with representation and warranty recourse provisions. Such provisions include the loan s compliance with applicable loan criteria, including certain documentation standards per agreements with unrelated third parties. Additional reasons for the Bancorp having to repurchase the loans include appraisal standards with the collateral, fraud related to the loan application and the rescission of mortgage insurance. Under these provisions, the Bancorp is required to repurchase any previously sold loan for which the representation or warranty of the Bancorp proves to be inaccurate, incomplete or misleading. As of June 30, 2012, December 31, 2011 and June 30, 2011, the Bancorp maintained reserves related to these loans sold with the representation and warranty recourse provisions totaling $57 million, $55 million and $60 million, respectively, which were included in other liabilities in the Bancorp s Condensed Consolidated Balance Sheets. For further information on residential mortgage loans sold with representation and warranty recourse provisions, see Note 13 of the Notes to Condensed Consolidated Financial Statements.

For the three months ended June 30, 2012 and 2011, the Bancorp paid $9 million and $14 million, respectively, in the form of make whole payments and repurchased $39 million and $25 million, respectively, in outstanding principal of loans to satisfy investor demands. For the six months ended June 30, 2012 and 2011, the Bancorp paid $17 million and $29 million, respectively, in the form of make whole payments and repurchased $65 million and $51 million, respectively, of loans to satisfy investor demands. Total repurchase demand requests during the three months ended June 30, 2012 and 2011 were $84 million and $89 million, respectively. Total repurchase demand requests during the six months ended June 30, 2012 and 2011 were $210 million and $172 million, respectively. Total outstanding repurchase demand inventory was $97 million at June 30, 2012 compared to $66 million at December 31, 2011 and $127 million at June 30, 2011.

The Bancorp sold certain residential mortgage loans in the secondary market with credit recourse. In the event of any customer default, pursuant to the credit recourse provided, the Bancorp is required to reimburse the third party. The maximum amount of credit risk in the event of non-performance by the underlying borrowers is equivalent to the total outstanding balance. In the event of non-performance, the

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Bancorp has rights to the underlying collateral value securing the loan. At June 30, 2012 the outstanding balances on these loans sold with credit recourse was $721 million compared to $772 million at December 31, 2011 and $875 million at June 30, 2011. The Bancorp maintained an estimated credit loss reserve on these loans sold with credit recourse of $19 million at June 30, 2012, $17 million at December 31, 2011 and $20 million at June 30, 2011, which was recorded in other liabilities in the Condensed Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of residential mortgage loans held in its loan portfolio. For further information on residential mortgage loans sold with credit recourse, see Note 13 of the Notes to Condensed Consolidated Financial Statements.

Private Mortgage Insurance

For certain mortgage loans originated by the Bancorp, borrowers may be required to obtain PMI provided by third-party insurers. In some instances, these insurers cede a portion of the PMI premiums to the Bancorp, and the Bancorp provides reinsurance coverage within a specified range of the total PMI coverage. The Bancorp s reinsurance coverage typically ranges from 5% to 10% of the total PMI coverage.

The Bancorp s maximum exposure in the event of nonperformance by the underlying borrowers is equivalent to the Bancorp s total outstanding reinsurance coverage, which was $67 million at June 30, 2012, $77 million at December 31, 2011 and $92 million at June 30, 2011. As of June 30, 2012, December 31, 2011 and June 30, 2011, the Bancorp maintained a reserve of $24 million, $27 million and $33 million, respectively, related to exposures within the reinsurance portfolio which was included in other liabilities in the Condensed Consolidated Balance Sheets. During the second quarter of 2009, the Bancorp suspended the practice of providing reinsurance of private mortgage insurance for newly originated mortgage loans. In the third quarter of 2010, the Bancorp allowed one of its third-party insurers to terminate its reinsurance agreement with the Bancorp, resulting in the Bancorp releasing collateral to the insurer in the form of investment securities and other assets with a carrying value of $19 million, and the insurer assuming the Bancorp s obligations under the reinsurance agreement, resulting in a decrease to the Bancorp s reserve liability of $20 million and decrease in the Bancorp s maximum exposure of $53 million. In the second quarter of 2011, the Bancorp allowed one of its third-party insurers to terminate its reinsurance agreement with the Bancorp, resulting in the Bancorp releasing collateral to the insurer in the form of investment securities and other assets with a carrying value of $5 million, and the insurer assuming the Bancorp s obligations under the reinsurance agreement, resulting in a decrease to the Bancorp s reserve liability of $11 million and decrease in the Bancorp s maximum exposure of $27 million.

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Quantitative and Qualitative Disclosure about Market Risk (Item 3)

Information presented in the Market Risk Management section of Management s Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

Controls and Procedures (Item 4)

The Bancorp conducted an evaluation, under the supervision and with the participation of the Bancorp s management, including the Bancorp s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bancorp s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on the foregoing, as of the end of the period covered by this report, the Bancorp s Chief Executive Officer and Chief Financial Officer concluded that the Bancorp s disclosure controls and procedures were effective, at the reasonable assurance level, to ensure that information required to be disclosed in the reports the Bancorp files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and to provide reasonable assurance that information required to be disclosed by the Bancorp in such reports is accumulated and communicated to the Bancorp s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Bancorp s management also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Bancorp s internal control over financial reporting. Based on this evaluation, there has been no such change during the period covered by this report.

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Fifth Third Bancorp and Subsidiaries

Condensed Consolidated Financial Statements and Notes (Item 1)

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

($ in millions, except share data)	June 30, 2012	As of December 31, 2011	June 30, 2011
Assets			
Cash and due from banks [(a)]	**$ 2,393**	2,663	2,380
Available-for-sale and other securities [(b)]	**15,552**	15,362	15,502
Held-to-maturity securities [(c)]	**305**	322	344
Trading securities	**200**	177	217
Other short-term investments [(a)]	**1,964**	1,781	1,370
Loans held for sale [(d)]	**1,863**	2,954	1,185
Portfolio loans and leases:			
Commercial and industrial loans	**32,612**	30,783	28,099
Commercial mortgage loans [(a)]	**9,662**	10,138	10,233
Commercial construction loans	**822**	1,020	1,778
Commercial leases	**3,467**	3,531	3,326
Residential mortgage loans[(e)]	**11,429**	10,672	9,849
Home equity [(a)]	**10,377**	10,719	11,048
Automobile loans [(a)]	**11,739**	11,827	11,315
Credit card	**1,943**	1,978	1,856
Other consumer loans and leases	**308**	350	463
Portfolio loans and leases	**82,359**	81,018	77,967
Allowance for loan and lease losses[(a)]	**(2,016)**	(2,255)	(2,614)
Portfolio loans and leases, net	**80,343**	78,763	75,353
Bank premises and equipment	**2,506**	2,447	2,395
Operating lease equipment	**511**	497	492
Goodwill	**2,417**	2,417	2,417
Intangible assets	**33**	40	49
Servicing rights	**736**	681	847
Other assets [(a)]	**8,720**	8,863	8,254
Total Assets	**$ 117,543**	116,967	110,805
Liabilities			
Deposits:			
Demand	**$ 26,251**	27,600	22,589
Interest checking	**23,197**	20,392	18,072
Savings	**22,011**	21,756	21,764
Money market	**4,223**	4,989	4,859
Other time	**4,261**	4,638	6,399
Certificates - $100,000 and over	**3,065**	3,039	3,642
Foreign office and other	**1,265**	3,296	3,273

Total deposits	**84,273**	85,710	80,598
Federal funds purchased	**641**	346	403
Other short-term borrowings	**4,613**		