

FIFTH THIRD BANCORP  
 Form 10-K  
 February 29, 2012

2011 ANNUAL REPORT

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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, estimated, forecast, projected, intends to, or may include other similar words or phrases such as believes, plans, trend, objective, continue, remain, or similar future or conditional verbs such as will, would, should, could, might, can, or similar verbs. There are a number of important factors that could cause future performance 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.

**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 Consolidated Financial Statements and in the Notes to Consolidated Financial Statements.

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

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**FNMA:** Federal National Mortgage Association

**FRB:** Federal Reserve Bank

**FTAM:** Fifth Third Asset Management, Inc.

**FTE:** Fully Taxable Equivalent

**FTP:** Funds Transfer Pricing

**FTPS:** Fifth Third Processing Solutions, now Vantiv Holding, LLC

**FTS:** Fifth Third Securities

**GNMA:** Government National Mortgage Association

**TDR:** Troubled Debt Restructuring

**TLGP:** Temporary Liquidity Guarantee Program

**TSA:** Transition Service Agreement

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

**VIE:** Variable Interest Entity

**VRDN:** Variable Rate Demand Note

*14 Fifth Third Bancorp*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 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**

For the years ended December 31 (\$ in millions, except for per share data)	2011	2010	2009	2008	2007
<b>Income Statement Data</b>					
Net interest income <sup>(a)</sup>	\$ 3,575	3,622	3,373	3,536	3,033
Noninterest income	2,455	2,729	4,782	2,946	2,467
Total revenue <sup>(a)</sup>	6,030	6,351	8,155	6,482	5,500
Provision for loan and lease losses	423	1,538	3,543	4,560	628
Noninterest expense	3,758	3,855	3,826	4,564	3,311
Net income (loss) attributable to Bancorp	1,297	753	737	(2,113)	1,076
Net income (loss) available to common shareholders	1,094	503	511	(2,180)	1,075
<b>Common Share Data</b>					
Earnings per share, basic	\$ 1.20	0.63	0.73	(3.91)	1.99
Earnings per share, diluted	1.18	0.63	0.67	(3.91)	1.98
Cash dividends per common share	0.28	0.04	0.04	0.75	1.70
Book value per share	13.92	13.06	12.44	13.57	17.18
Market value per share	12.72	14.68	9.75	8.26	25.13
<b>Financial Ratios (%)</b>					
Return on assets	1.15 %	0.67	0.64	(1.85)	1.05
Return on average common equity	9.0	5.0	5.6	(23.0)	11.2
Dividend payout ratio	23.3	6.3	5.5	NM	85.4
Average equity as a percent of average assets	11.41	12.22	11.36	8.78	9.35
Tangible common equity <sup>(b)</sup>	8.68	7.04	6.45	4.23	6.14
Net interest margin <sup>(a)</sup>	3.66	3.66	3.32	3.54	3.36
Efficiency <sup>(a)</sup>	62.3	60.7	46.9	70.4	60.2
<b>Credit Quality</b>					
Net losses charged off	\$ 1,172	2,328	2,581	2,710	462
Net losses charged off as a percent of average loans and leases	1.49 %	3.02	3.20	3.23	0.61
ALLL as a percent of loans and leases	2.78	3.88	4.88	3.31	1.17
Allowance for credit losses as a percent of loans and leases <sup>(c)</sup>	3.01	4.17	5.27	3.54	1.29
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned <sup>(d) (e)</sup>	2.23	2.79	4.22	2.38	1.25
<b>Average Balances</b>					
Loans and leases, including held for sale	\$ 80,214	79,232	83,391	85,835	78,348
Total securities and other short-term investments	17,468	19,699	18,135	14,045	12,034
Total assets	112,666	112,434	114,856	114,296	102,477
Transaction deposits <sup>(f)</sup>	72,392	65,662	55,235	52,680	50,987
Core deposits <sup>(g)</sup>	78,652	76,188	69,338	63,815	61,765
Wholesale funding <sup>(h)</sup>	16,939	18,917	28,539	36,261	27,254
Bancorp shareholders' equity	12,851	13,737	13,053	10,038	9,583
<b>Regulatory Capital Ratios (%)</b>					
Tier I capital	11.91 %	13.89	13.30	10.59	7.72
Total risk-based capital	16.09	18.08	17.48	14.78	10.16
Tier I leverage	11.10	12.79	12.34	10.27	8.50
Tier I common equity <sup>(b)</sup>	9.35	7.48	6.99	4.37	5.72

(a) Amounts presented on an FTE basis. The FTE adjustment for years ended December 31, 2011, 2010, 2009, 2008, and 2007 were \$18, \$18, \$19, \$22 and \$24, respectively.

(b) The return on average tangible common equity, 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) The Bancorp modified its nonaccrual policy in 2009 to exclude consumer TDR loans less than 90 days past due as they were performing in accordance with restructuring terms. For comparability purposes, prior periods were adjusted to reflect this reclassification.

(f) Includes demand, interest checking, savings, money market and foreign office deposits.

(g) Includes transaction deposits plus other time deposits.

(h) Includes certificates \$100,000 and over, other deposits, federal funds purchased, short-term borrowings and long-term debt.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**TABLE 2: QUARTERLY INFORMATION (unaudited)**

For the three months ended (\$ in millions, except per share data)	2011				2010			
	12/31	9/30	6/30	3/31	12/31	9/30	6/30	3/31
Net interest income (FTE)	\$ 920	902	869	884	919	916	887	901
Provision for loan and lease losses	55	87	113	168	166	457	325	590
Noninterest income	550	665	656	584	656	827	620	627
Noninterest expense	993	946	901	918	987	979	935	956
Net income (loss) attributable to Bancorp	314	381	337	265	333	238	192	(10)
Net income (loss) available to common shareholders	305	373	328	88	270	175	130	(72)
Earnings per share, basic	0.33	0.41	0.36	0.10	0.34	0.22	0.16	(0.09)
Earnings per share, diluted	0.33	0.40	0.35	0.10	0.33	0.22	0.16	(0.09)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OVERVIEW**

Fifth Third Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At December 31, 2011, the Bancorp had \$117 billion in assets, operated 15 affiliates with 1,316 full-service Banking Centers, including 104 Bank Mart<sup>®</sup> locations open seven days a week inside select grocery stores, and 2,425 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 a 49% interest in Vantiv Holding, LLC, formerly Fifth Third Processing Solutions, LLC.

This overview of MD&A highlights selected information in the financial results of the Bancorp and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting policies and estimates, you should carefully read this entire document. Each of these items could have an impact on the Bancorp's financial condition, results of operations and cash flows. In addition, see the Glossary of Terms in this report for a list of acronyms included as a tool for the reader of this annual report on Form 10-K. The acronyms identified therein are used throughout this MD&A, as well as the Consolidated Financial Statements and Notes to 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 year ended December 31, 2011, net interest income, on a FTE basis, and noninterest income provided 59% and 41% 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 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 a FTE basis. The FTE basis adjusts for the tax-favored status of income from certain loans and securities held by the Bancorp that are not taxable for federal income tax purposes. The Bancorp believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

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

***Common Stock and Senior Notes Offerings***

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On January 25, 2011, the Bancorp raised \$1.7 billion in new common equity through the issuance of 121,428,572 shares of common stock in an underwritten offering at an initial price of \$14.00 per share. On January 24, 2011, the underwriters exercised their option to purchase an additional 12,142,857 shares at the offering price of \$14.00 per share. In connection with this exercise, the Bancorp entered into a forward sale agreement which resulted in a final net payment of 959,821 shares on February 4, 2011.

On January 25, 2011, the Bancorp issued \$1.0 billion of Senior notes to third party investors, and entered into a Supplemental Indenture dated January 25, 2011 with Wilmington Trust Company, as Trustee, which modifies the existing Indenture for Senior Debt Securities dated April 30, 2008 between the Bancorp and the Trustee. The Supplemental Indenture and the Indenture define the rights of the Senior notes, which Senior notes are represented by Global Securities dated as of January 25, 2011. The Senior notes bear a fixed rate of interest of 3.625% 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 January 25, 2016. The notes will not be subject to the redemption at the Bancorp's option at any time prior to maturity.

### ***Repurchase of Outstanding TARP Preferred Stock***

As further discussed in Note 23 of the Notes to Consolidated Financial Statements, on December 31, 2008, the Bancorp issued \$3.4 billion of Fixed Rate Cumulative Perpetual Preferred Stock, Series F, and related warrants to the U.S. Treasury under the U.S. Treasury's CPP.

On February 2, 2011, the Bancorp redeemed all 136,320 shares of its Series F Preferred Stock held by the U.S. Treasury. As discussed above, the net proceeds from the Bancorp's January 2011 common stock and senior notes offerings and other funds were used to redeem the \$3.4 billion of Series F Preferred Stock.

In connection with the redemption of the Series F preferred Stock, the Bancorp accelerated the accretion of the remaining issuance discount on the Series F Preferred Stock and recorded a corresponding reduction in retained earnings of \$153 million. This resulted in a one-time, noncash reduction in net income available to common shareholders and related basic and diluted earnings per share. Dividends of \$15 million were paid on February 2, 2011 when the Series F Preferred Stock was redeemed. The Bancorp paid total dividends of \$356 million to the U.S. Treasury while the Series F Preferred Stock was outstanding.

On March 16, 2011, the Bancorp repurchased the warrant issued to the U.S. Treasury in connection with the CPP preferred stock investment at an agreed upon price of \$280 million, which was recorded as a reduction to capital surplus in the Bancorp's Consolidated Financial Statements. The warrant gave the U.S. Treasury the right to purchase 43,617,747 shares of the Bancorp's common stock at \$11.72 per share.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**Redemption of Trust Preferred Securities**

On March 18, 2011, the Bancorp announced that the FRB did not object to the Bancorp's capital plan submitted under the FRB's 2011 CCAR. Pursuant to this plan, during the second quarter of 2011 the Bancorp redeemed certain trust preferred securities, totalling \$452 million, which related to the Fifth Third Capital Trust VII, First National Bankshares Statutory Trust I and R&G Capital Trust II, LLT. During the third quarter of 2011, pursuant to the previously mentioned plan, the Bancorp redeemed certain trust preferred securities, totalling \$40 million, which related to the R&G Crown Cap Trust IV and First National Bankshares Statutory Trust II. During the fourth quarter of 2011, pursuant to the previously mentioned plan, the Bancorp redeemed certain trust preferred securities, totalling \$25 million, which related to the RG Crown Cap Trust I. As a result of these redemptions, the Bancorp recorded a \$7 million gain on the extinguishment of this debt within other noninterest expense in the Bancorp's Consolidated Statements of Income.

**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. The CFPB 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 establishes 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 \$.21 per transaction plus an additional 5 bps of the transaction amount and \$.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 Fifth Third is not currently known, the impact is expected to be substantial and may have an adverse impact on Fifth Third's financial performance and growth opportunities.

**TABLE 3: CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31 (\$ in millions, except per share data)	2011	2010	2009	2008	2007
Interest income (FTE)	\$ 4,236	4,507	4,687	5,630	6,051
Interest expense	661	885	1,314	2,094	3,018
Net interest income (FTE)	3,575	3,622	3,373	3,536	3,033
Provision for loan and lease losses	423	1,538	3,543	4,560	628
Net interest income (loss) after provision for loan and lease losses (FTE)	3,152	2,084	(170)	(1,024)	2,405
Noninterest income	2,455	2,729	4,782	2,946	2,467
Noninterest expense	3,758	3,855	3,826	4,564	3,311
Income (loss) before income taxes (FTE)	1,849	958	786	(2,642)	1,561
Fully taxable equivalent adjustment	18	18	19	22	24
Applicable income tax expense (benefit)	533	187	30	(551)	461
Net income (loss)	1,298	753	737	(2,113)	1,076
Less: Net income attributable to noncontrolling interests	1				
Net income (loss) attributable to Bancorp	1,297	753	737	(2,113)	1,076
Dividends on preferred stock	203	250	226	67	1
Net income (loss) available to common shareholders	\$ 1,094	503	511	(2,180)	1,075
Earnings per share	\$ 1.20	0.63	0.73	(3.91)	1.99
Earnings per diluted share	1.18	0.63	0.67	(3.91)	1.98

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Cash dividends declared per common share	\$ 0.28	0.04	0.04	0.75	1.70
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### *Earnings Summary*

The Bancorp's net income available to common shareholders for the year ended December 31, 2011 was \$1.1 billion, or \$1.18 per diluted share, which was net of \$203 million in preferred stock dividends. The Bancorp's net income available to common shareholders for the year ended December 31, 2010 was \$503 million, or \$0.63 per diluted share, which was net of \$250 million in preferred stock dividends. The preferred stock dividends during 2011 included \$153 million in discount accretion resulting from the Bancorp's repurchase of Series F preferred stock.

Net interest income was \$3.6 billion for the years ended December 31, 2011 and 2010. Net interest income in 2011 compared to the prior year was impacted by a 22 bps decrease in average yield on average interest earning assets offset by a 25 bps decrease in the average rate paid on interest bearing liabilities and a \$3.2 billion decrease in average interest bearing liabilities, coupled with a mix shift to lower cost deposits. Net interest margin was 3.66% for the years ended December 31, 2011 and 2010.

Noninterest income decreased \$274 million, or 10%, in 2011 compared to 2010 primarily as the result of \$152 million litigation settlement related to one of the Bancorp's BOLI policies during the third quarter of 2010, a \$54 million decrease in service charges on deposits primarily due to the impact of Regulation E and a \$50 million decrease in mortgage banking net revenue primarily as the result of a decrease in origination fees and a decrease in gains on loan sales partially offset by an increase in net servicing revenue.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Noninterest expense decreased \$97 million, or three percent, in 2011 compared to 2010 primarily due to a decrease of \$59 million in the provision for representation and warranty claims related to residential mortgage loans sold to third parties; a decrease of \$41 million in FDIC insurance and other taxes, a \$22 million decrease from the change in the provision for unfunded commitments and letters of credit, a \$21 million decrease in intangible asset amortization and a \$19 million decrease in professional service fees. This activity was partially offset by a \$64 million increase in total personnel costs (salaries, wages and incentives plus employee benefits).

***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. Throughout 2010 and 2011, the Bancorp continued to be affected by high unemployment rates,

weakened housing markets, particularly in the upper Midwest and Florida, and a challenging credit environment. Credit trends have improved, and as a result, the provision for loan and lease losses decreased to \$423 million in 2011 compared to \$1.5 billion in 2010. In addition, net charge-offs as a percent of average loans and leases decreased to 1.49% during 2011 compared to 3.02% during 2010. At December 31, 2011, nonperforming assets as a percent of loans, leases and other assets, including OREO (excluding nonaccrual loans held for sale) decreased to 2.23%, compared to 2.79% at December 31, 2010. 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 December 31, 2011, the Tier I capital ratio was 11.91%, the Tier I leverage ratio was 11.10% and the total risk-based capital ratio was 16.09%.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**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 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 and taxable equivalent adjustment. The Bancorp believes this measure is important because it provides a ready view of the Bancorp's earnings before the impact of provision expense.

The following table reconciles non-GAAP financial measures to U.S. GAAP as of December 31:

**TABLE 4: NON-GAAP FINANCIAL MEASURES**

(\$ in millions)	2011	2010
<b>Income before income taxes (U.S. GAAP)</b>	<b>\$ 1,831</b>	940
Add: Provision expense (U.S. GAAP)	423	1,538
Pre-provision net revenue	2,254	2,478
<b>Net income available to common shareholders (U.S. GAAP)</b>	<b>\$ 1,094</b>	503
Add: Intangible amortization, net of tax	15	29
Tangible net income available to common shareholders	1,109	532
<b>Total Bancorp shareholders' equity (U.S. GAAP)</b>	<b>\$ 13,201</b>	14,051
Less: Preferred stock	(398)	(3,654)
Goodwill	(2,417)	(2,417)
Intangible assets	(40)	(62)
Tangible common equity, including unrealized gains / losses	10,346	7,918
Less: Accumulated other comprehensive income	(470)	(314)
Tangible common equity, excluding unrealized gains / losses (1)	9,876	7,604
Add: Preferred stock	398	3,654
Tangible equity (2)	10,274	11,258
<b>Total assets (U.S. GAAP)</b>	<b>\$ 116,967</b>	111,007
Less: Goodwill	(2,417)	(2,417)
Intangible assets	(40)	(62)
Accumulated other comprehensive income, before tax	(723)	(483)
Tangible assets, excluding unrealized gains / losses (3)	\$ 113,787	108,045
<b>Total Bancorp shareholders' equity (U.S. GAAP)</b>	<b>\$ 13,201</b>	14,051

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Less: Goodwill and certain other intangibles	(2,514)	(2,546)
Accumulated other comprehensive income	(470)	(314)
Add: Qualifying trust preferred securities	2,248	2,763
Other	38	11
Tier I capital	12,503	13,965
Less: Preferred stock	(398)	(3,654)
Qualifying trust preferred securities	(2,248)	(2,763)
Qualified noncontrolling interest in consolidated subsidiaries	(50)	(30)
Tier I common equity (4)	\$ 9,807	7,518
Risk-weighted assets (5) <sup>(a)</sup>	\$ 104,945	100,561
<b>Ratios:</b>		
Tangible equity (2) / (3)	9.03 %	10.42
Tangible common equity (1) / (3)	8.68 %	7.04
Tier I common equity (4) / (5)	9.35 %	7.48

*(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.*

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RECENT ACCOUNTING STANDARDS**

Note 1 of the Notes to Consolidated Financial Statements provides a discussion of the significant new accounting standards adopted by the Bancorp during 2011 and the expected impact of significant accounting standards issued, but not yet required to be adopted.

**CRITICAL ACCOUNTING POLICIES**

The Bancorp's 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. No material changes were made to the valuation techniques or models described below during the year ended December 31, 2011.

***ALLL***

The Bancorp disaggregates its portfolio loans and leases into portfolio segments for purposes of determining the ALLL. The Bancorp's portfolio segments include commercial, residential mortgage, and consumer. The Bancorp further disaggregates its portfolio segments into classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. Classes within the commercial portfolio segment include commercial and industrial, commercial mortgage owner-occupied, commercial mortgage nonowner-occupied, commercial construction, and commercial leasing. The residential mortgage portfolio segment is also considered a class. Classes within the consumer segment include home equity, automobile, credit card, and other consumer loans and leases. For an analysis of the Bancorp's ALLL by portfolio segment and credit quality information by class, see Note 6 of the Notes to Consolidated Financial Statements.

The Bancorp maintains the ALLL to absorb probable loan and lease losses inherent in its portfolio segments. The ALLL is maintained at a level the Bancorp considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectability and historical loss experience of loans and leases. Credit losses are charged and recoveries are credited to the ALLL. Provisions for loan and lease losses are based on the Bancorp's review of the historical credit loss experience and such factors that, in management's judgment, deserve consideration under existing economic conditions in estimating probable credit losses. In determining the appropriate level of the ALLL, the Bancorp estimates losses using a range derived from base and conservative estimates. The Bancorp's strategy for credit risk management includes a combination of conservative exposure limits significantly below legal lending limits and conservative underwriting, documentation and collections standards. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

The Bancorp's methodology for determining the ALLL is based on historical loss rates, current credit grades, specific allocation on loans modified in a TDR and impaired commercial credits above specified thresholds and other qualitative adjustments. Allowances on individual commercial loans, TDRs and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience. An unallocated allowance is maintained to recognize the imprecision in estimating and measuring losses when evaluating allowances for individual loans or pools of loans.

Larger commercial loans included within aggregate borrower relationship balances exceeding \$1 million that exhibit probable or observed credit weaknesses, as well as loans that have been modified in a TDR, are subject to individual review for impairment. The Bancorp considers the

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current value of collateral, credit quality of any guarantees, the guarantor's liquidity and willingness to cooperate, the loan structure, and other factors when evaluating whether an individual loan is impaired. Other factors may include the industry and geographic region of the borrower, size and financial condition of the borrower, cash flow and leverage of the borrower, and the Bancorp's evaluation of the borrower's management. When individual loans are impaired, allowances are determined based on management's estimate of the borrower's ability to repay the loan given the availability of collateral and other sources of cash flow, as well as an evaluation of legal options available to the Bancorp. Allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, fair value of the underlying collateral or readily observable secondary market values. The Bancorp evaluates the collectability of both principal and interest when assessing the need for a loss accrual.

Historical credit loss rates are applied to commercial loans that are not impaired or are impaired, but smaller than the established threshold of \$1 million and thus not subject to specific allowance allocations. The loss rates are derived from a migration analysis, which tracks the historical net charge-off experience sustained on loans according to their internal risk grade. The risk grading system utilized for allowance analysis purposes encompasses ten categories.

Homogenous loans and leases in the residential mortgage and consumer portfolio segments are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks, and allowances are established based on the expected net charge-offs. Loss rates are based on the trailing twelve month net charge-off history by loan category. Historical loss rates may be adjusted for certain prescriptive and qualitative factors that, in management's judgment, are necessary to reflect losses inherent in the portfolio. Factors that management considers in the analysis include the effects of the national and local economies; trends in the nature and volume of delinquencies, charge-offs and nonaccrual loans; changes in loan mix; credit score migration comparisons; asset quality trends; risk management and loan administration; changes in the internal lending policies and credit standards; collection practices; and examination results from bank regulatory agencies and the Bancorp's internal credit reviewers.

Loans acquired by the Bancorp through a purchase business combination are recorded at fair value as of the acquisition date. The Bancorp does not carry over the acquired company's ALLL, nor does the Bancorp add to its existing ALLL as part of purchase accounting.

The Bancorp's primary market areas for lending are the Midwestern and Southeastern regions of the United States. When evaluating the adequacy of allowances, consideration is given to these regional geographic concentrations and the closely associated effect changing economic conditions have on the Bancorp's customers.

### ***Reserve for Unfunded Commitments***

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

probable losses related to unfunded credit facilities and is included in other liabilities in the Consolidated Balance Sheets. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience, credit risk grading and historical loss rates based on credit grade migration. This process takes into consideration the same risk elements that are analyzed in the determination of the adequacy of the Bancorp ALLL, as discussed above. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the Consolidated Statements of Income.

***Income Taxes***

The Bancorp estimates income tax expense based on amounts expected to be owed to the various tax jurisdictions in which the Bancorp conducts business. On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current estimate of the amount and components of net income, tax credits and the applicable statutory tax rates expected for the full year. The estimated income tax expense is recorded in the Consolidated Statements of Income.

Deferred income tax assets and liabilities are determined using the balance sheet method and are reported in other assets and accrued taxes, interest and expenses, respectively in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and reflects enacted changes in tax rates and laws. Deferred tax assets are recognized to the extent they exist and are subject to a valuation allowance based on management's judgment that realization is more-likely-than-not. This analysis is performed on a quarterly basis and includes an evaluation of all positive and negative evidence to determine whether realization is more-likely-than-not.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Consolidated Balance Sheets. The Bancorp evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period's income tax expense and can be significant to the operating results of the Bancorp. For additional information on income taxes, see Note 20 of the Notes to Consolidated Financial Statements.

***Valuation of Servicing Rights***

When the Bancorp sells loans through either securitizations or individual loan sales in accordance with its investment policies, it often obtains servicing rights. Servicing rights resulting from loan sales are initially recorded at fair value and subsequently amortized in proportion to, and over the period of, estimated net servicing income. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the prepayment speeds of the underlying loans, the weighted-average life, the discount rate, the weighted-average coupon and the weighted-average default rate, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speeds. The Bancorp monitors risk and adjusts its valuation allowance as necessary to adequately reserve for impairment in the servicing portfolio. For purposes of measuring impairment, the mortgage servicing rights are stratified into classes based on the financial asset type (fixed-rate vs. adjustable-rate) and interest rates. For additional information on servicing rights, see Note 12 of the Notes to Consolidated Financial Statements.

***Fair Value Measurements***

The Bancorp measures certain financial assets and liabilities at fair value in accordance with U.S. GAAP, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques the Bancorp uses to measure fair value include the market approach, income approach and cost approach. The market approach uses prices or relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach involves discounting future amounts to a single present amount and is based on current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of the asset.

U.S. GAAP establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the



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lowest priority to unobservable inputs (Level 3). An instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument's fair value measurement. The three levels within the fair value hierarchy are described as follows:

*Level 1* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bancorp has the ability to access at the measurement date.

*Level 2* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Bancorp's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Bancorp's own financial data such as internally developed pricing models and discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The Bancorp's fair value measurements involve various valuation techniques and models, which involve inputs that are observable, when available. Valuation techniques and parameters used for measuring assets and liabilities are reviewed and validated by the Bancorp on a quarterly basis. Additionally, the Bancorp monitors the fair values of significant assets and liabilities using a variety of methods including the evaluation of pricing runs and exception reports based on certain analytical criteria, comparison to previous trades and overall review and assessments for

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

reasonableness. The following is a summary of valuation techniques utilized by the Bancorp for its significant assets and liabilities measured at fair value on a recurring basis.

### **Available-for-sale and trading securities**

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which are classified within Level 2 of the valuation hierarchy, include agency and non-agency mortgage-backed securities, other asset-backed securities, obligations of U.S. Government sponsored agencies, and corporate and municipal bonds. Agency mortgage-backed securities, obligations of U.S. Government sponsored agencies, and corporate and municipal bonds are generally valued using a market approach based on observable prices of securities with similar characteristics. Non-agency mortgage-backed securities and other asset-backed securities are generally valued using an income approach based on discounted cash flows, incorporating prepayment speeds, performance of underlying collateral and specific tranche-level attributes. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Trading securities classified as Level 3 consist of auction rate securities. Due to the illiquidity in the market for these types of securities, the Bancorp measures fair value using a discount rate based on the assumed holding period.

### **Residential mortgage loans held for sale and held for investment**

For residential mortgage loans held for sale, fair value is estimated based upon mortgage-backed securities prices and spreads to those prices or, for certain ARM loans, discounted cash flow models that may incorporate the anticipated portfolio composition, credit spreads of asset-backed securities with similar collateral, and market conditions. The anticipated portfolio composition includes the effect of interest rate spreads and discount rates due to loan characteristics such as the state in which the loan was originated, the loan amount and the ARM margin. Residential mortgage loans held for sale that are valued based on mortgage-backed securities prices are classified within Level 2 of the valuation hierarchy as the valuation is based on external pricing for similar instruments. ARM loans classified as held for sale are also classified within Level 2 of the valuation hierarchy due to the use of observable inputs in the discounted cash flow model. These observable inputs include interest rate spreads from agency mortgage-backed securities market rates and observable discount rates. For residential mortgage loans reclassified from held for sale to held for investment, the fair value estimation is based primarily on the underlying collateral values. Therefore, these loans are classified within Level 3 of the valuation hierarchy.

### **Derivatives**

Exchange-traded derivatives valued using quoted prices and certain over-the-counter derivatives valued using active bids are classified within Level 1 of the valuation hierarchy. Most of the Bancorp's derivative contracts are valued using discounted cash flow or other models that incorporate current market interest rates, credit spreads assigned to the derivative counterparties, and other market parameters and, therefore, are classified within Level 2 of the valuation hierarchy. Such derivatives include basic and structured interest rate swaps and options. Derivatives that are valued based upon models with significant unobservable market parameters are classified within Level 3 of the valuation hierarchy. At December 31, 2011, derivatives classified as Level 3, which are valued using an option-pricing model containing unobservable inputs, consisted primarily of warrants and put rights associated with the sale of Vantiv Holding, LLC and a total return swap associated with the Bancorp's sale of its Visa, Inc. Class B shares. Level 3 derivatives also include interest rate lock commitments, which utilize internally generated loan closing rate assumptions as a significant unobservable input in the valuation process.

In addition to the assets and liabilities measured at fair value on a recurring basis, the Bancorp measures servicing rights, certain loans and long-lived assets at fair value on a nonrecurring basis. Refer to Note 27 of the Notes to Consolidated Financial Statements for further information on fair value measurements.

### **Goodwill**

Business combinations entered into by the Bancorp typically include the acquisition of goodwill. U.S. GAAP requires goodwill to be tested for impairment at the Bancorp's reporting unit level on an annual basis, which for the Bancorp is September 30, and more frequently if events or circumstances indicate that there may be impairment. The Bancorp has determined that its segments qualify as reporting units under U.S. GAAP. Impairment exists when a reporting unit's carrying amount of goodwill exceeds its implied fair value, which is determined through a two-step impairment test. The first step (Step 1) compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step (Step 2) of the goodwill impairment test is performed to measure the

impairment loss amount, if any.

The fair value of a reporting unit is the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Since none of the Bancorp's reporting units are publicly traded, individual reporting unit fair value determinations cannot be directly correlated to the Bancorp's stock price. To determine the fair value of a reporting unit, the Bancorp employs an income-based approach, utilizing the reporting unit's forecasted cash flows (including a terminal value approach to estimate cash flows beyond the final year of the forecast) and the reporting unit's estimated cost of equity as the discount rate. Additionally, the Bancorp determines its market capitalization based on the average of the closing price of the Bancorp's stock during the month including the measurement date, incorporating an additional control premium, and compares this market-based fair value measurement to the aggregate fair value of the Bancorp's reporting units in order to corroborate the results of the income approach.

When required to perform Step 2, the Bancorp compares the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss equal to that excess amount is recognized. An impairment loss recognized cannot exceed the carrying amount of that goodwill and cannot be reversed even if the fair value of the reporting unit recovers.

During Step 2, the Bancorp determines the implied fair value of goodwill for a reporting unit by assigning the fair value of the reporting unit to all of the assets and liabilities of that unit (including

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. This assignment process is only performed for purposes of testing goodwill for impairment. The Bancorp does not adjust the carrying values of recognized assets or liabilities (other than goodwill, if appropriate), nor recognize previously unrecognized intangible assets in the Consolidated Financial Statements as a result of this assignment process. Refer to Note 9 of the Notes to Consolidated Financial Statements for further information regarding the Bancorp's goodwill.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RISK FACTORS**

The risks listed below present risks that could have a material impact on the Bancorp's financial condition, the results of its operations, or its business.

**RISKS RELATING TO ECONOMIC AND MARKET CONDITIONS**

*Weakness in the economy and in the real estate market, including specific weakness within Fifth Third's geographic footprint, has adversely affected Fifth Third and may continue to adversely affect Fifth Third.*

If the strength of the U.S. economy in general or the strength of the local economies in which Fifth Third conducts operations declines or does not improve in a reasonable time frame, this could result in, among other things, a deterioration in credit quality or a reduced demand for credit, including a resultant effect on Fifth Third's loan portfolio and ALLL and in the receipt of lower proceeds from the sale of loans and foreclosed properties. A significant portion of Fifth Third's residential mortgage and commercial real estate loan portfolios are comprised of borrowers in Michigan, Northern Ohio and Florida, which markets have been particularly adversely affected by job losses, declines in real estate value, declines in home sale volumes, and declines in new home building. These factors could result in higher delinquencies, greater charge-offs and increased losses on the sale of foreclosed real estate in future periods, which could materially adversely affect Fifth Third's financial condition and results of operations.

*Changes in interest rates could affect Fifth Third's income and cash flows.*

Fifth Third's income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond Fifth Third's control, including general economic conditions and the policies of various governmental and regulatory agencies (in particular, the FRB). Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding. The impact of these changes may be magnified if Fifth Third does not effectively manage the relative sensitivity of its assets and liabilities to changes in market interest rates. Fluctuations in these areas may adversely affect Fifth Third and its shareholders.

*Changes and trends in the capital markets may affect Fifth Third's income and cash flows.*

Fifth Third enters into and maintains trading and investment positions in the capital markets on its own behalf and manages investment positions on behalf of its customers. These investment positions include derivative financial instruments. The revenues and profits Fifth Third derives from managing proprietary and customer trading and investment positions are dependent on market prices. Market changes and trends may result in a decline in investment advisory revenue or investment or trading losses that may materially affect Fifth Third. Losses on behalf of its customers could expose Fifth Third to litigation, credit risks or loss of revenue from those customers. Additionally, substantial losses in Fifth Third's trading and investment positions could lead to a loss with respect to those investments and may adversely affect cash flows and funding costs.

*The removal or reduction in stimulus activities sponsored by the Federal Government and its agents may have a negative impact on Fifth Third's results and operations.*

The Federal Government has intervened in an unprecedented manner to stimulate economic growth. The expiration or rescission of any of these programs may have an adverse impact on Fifth Third's operating results by increasing interest rates, increasing the cost of funding, and reducing the demand for loan products, including mortgage loans.

*Problems encountered by financial institutions larger than or similar to Fifth Third could adversely affect financial markets generally and have indirect adverse effects on Fifth Third.*

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Bancorp interacts on a daily basis, and therefore could adversely affect Fifth Third.

*Fifth Third's stock price is volatile.*

Fifth Third's stock price has been volatile in the past and several factors could cause the price to fluctuate substantially in the future. These factors include:

- Actual or anticipated variations in earnings;
- Changes in analysts' recommendations or projections;
- Fifth Third's announcements of developments related to its businesses;
- Operating and stock performance of other companies deemed to be peers;
- Actions by government regulators;
- New technology used or services offered by traditional and non-traditional competitors
- News reports of trends, concerns and other issues related to the financial services industry
- Natural disasters
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

The price for shares of Fifth Third's common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to Fifth Third's performance. General market price declines or market volatility in the future could adversely affect the price for shares of Fifth Third's common stock, and the current market price of such shares may not be indicative of future market prices.

#### **RISKS RELATING TO FIFTH THIRD'S GENERAL BUSINESS**

*Deteriorating credit quality, particularly in real estate loans, has adversely impacted Fifth Third and may continue to adversely impact Fifth Third.*

When Fifth Third lends money or commits to lend money the Bancorp incurs credit risk or the risk of losses if borrowers do not repay their loans. The credit performance of the loan portfolios significantly affects the Bancorp's financial results and condition. If the current economic environment were to deteriorate, more customers may have difficulty in repaying their loans or other obligations which could result in a higher level of credit losses and reserves for credit losses. Fifth Third reserves for credit losses by

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

establishing reserves through a charge to earnings. The amount of these reserves is based on Fifth Third's assessment of credit losses inherent in the loan portfolio (including unfunded credit commitments). The process for determining the amount of the allowance for loan and lease losses and the reserve for unfunded commitments is critical to Fifth Third's financial results and condition. It requires difficult, subjective and complex judgments about the environment, including analysis of economic or market conditions that might impair the ability of borrowers to repay their loans.

Fifth Third might underestimate the credit losses inherent in its loan portfolio and have credit losses in excess of the amount reserved. Fifth Third might increase the reserve because of changing economic conditions, including falling home prices or higher unemployment, or other factors such as changes in borrower's behavior. As an example, borrowers may strategically default, or discontinue making payments on their real estate-secured loans if the value of the real estate is less than what they owe, even if they are still financially able to make the payments.

Fifth Third believes that both the allowance for loan and lease losses and reserve for unfunded commitments are adequate to cover inherent losses at December 31, 2011; however, there is no assurance that they will be sufficient to cover future credit losses, especially if housing and employment conditions worsen. In the event of significant deterioration in economic conditions, Fifth Third may be required to build reserves in future periods, which would reduce earnings.

For more information, refer to the Risk Management Credit Risk Management, Critical Accounting Policies Allowance for Loan and Leases, and Reserve for Unfunded Commitments of the MD&A.

***Fifth Third must maintain adequate sources of funding and liquidity.***

Fifth Third must maintain adequate funding sources in the normal course of business to support its operations and fund outstanding liabilities, as well as meet regulatory expectations. Fifth Third primarily relies on bank deposits to be a low cost and stable source of funding for the loans Fifth Third makes and the operations of Fifth Third's business. Core customer deposits, which include transaction deposits and other time deposits, have historically provided Fifth Third with a sizeable source of relatively stable and low-cost funds (average core deposits funded 71% of average total assets at December 31, 2011). In addition to customer deposits, sources of liquidity include investments in the securities portfolio, Fifth Third's ability to sell or securitize loans in secondary markets and to pledge loans to access secured borrowing facilities through the FHLB and the FRB, and Fifth Third's ability to raise funds in domestic and international money and capital markets.

Fifth Third's liquidity and ability to fund and run the business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and volatility or a lack of market or customer confidence in financial markets in general similar to what occurred during the financial crisis in 2008 and early 2009, which may result in a loss of customer deposits or outflows of cash or collateral and/or ability to access capital markets on favorable terms.

Other conditions and factors that could materially adversely affect Fifth Third's liquidity and funding include a lack of market or customer confidence in Fifth Third or negative news about Fifth Third or the financial services industry generally which also may result in a loss of deposits and/or negatively affect the ability to access the capital markets; the loss of customer deposits to alternative investments; inability to sell or securitize loans or other assets, and reductions in one or more of Fifth Third's credit ratings. A reduced credit rating could adversely affect Fifth Third's ability to borrow funds and raise the cost of borrowings substantially and

could cause creditors and business counterparties to raise collateral requirements or take other actions that could adversely affect Fifth Third's ability to raise capital. Many of the above conditions and factors may be caused by events over which Fifth Third has little or no control such as what occurred during the financial crisis. While market conditions have stabilized and, in many cases, improved, there can be no assurance that significant disruption and volatility in the financial markets will not occur in the future.

Other material adverse effects could include a reduction in Fifth Third's credit ratings resulting from a further decrease in the probability of government support for large financial institutions such as Fifth Third assumed by the ratings agencies in their current credit ratings.

If Fifth Third is unable to continue to fund assets through customer bank deposits or access capital markets on favorable terms or if Fifth Third suffers an increase in borrowing costs or otherwise fails to manage liquidity effectively, liquidity, operating margins, financial results and condition may be materially adversely affected. As Fifth Third did during the financial crisis, it may also need to raise additional capital through the issuance of stock, which could dilute the ownership of existing stockholders, or reduce or even eliminate common stock dividends to preserve capital.

*Fifth Third may have more credit risk and higher credit losses to the extent loans are concentrated by location of the borrower or collateral.*

Fifth Third's credit risk and credit losses can increase if its loans are concentrated to borrowers engaged in the same or similar activities or to borrowers who as a group may be uniquely or disproportionately affected by economic or market conditions. Deterioration in economic conditions, housing conditions and real estate values in these states and generally across the country could result in materially higher credit losses.

*Bankruptcy laws may be changed to allow mortgage cram-downs, or court-ordered modifications to mortgage loans including the reduction of principal balances.*

Under current bankruptcy laws, courts cannot force a modification of mortgage and home equity loans secured by primary residences. In response to the financial crises, legislation has been proposed to allow mortgage loan cram-downs, which would empower courts to modify the terms of mortgage and home equity loans including a reduction in the principal amount to reflect lower underlying property values. This could result in writing down the balance of mortgage and home equity loans to reflect their lower loan values. There is also risk that home equity loans in a second lien position (i.e. behind a mortgage) could experience significantly higher losses to the extent they became unsecured as a result of a cram-down. The availability of principal reductions or other modifications to mortgage loan terms could make bankruptcy a more attractive option for troubled borrowers, leading to increased bankruptcy filings and accelerated defaults.

*Fifth Third may be required to repurchase mortgage loans or reimburse investors and others as a result of breaches in contractual representations and warranties.*

Fifth Third sells residential mortgage loans to various parties, including GSEs and other financial institutions that purchase mortgage loans for investment or private label securitization. Fifth Third may be required to repurchase mortgage loans, indemnify the securitization trust, investor or insurer, or reimburse the securitization trust, investor or insurer for credit losses incurred on loans in the event of a breach of contractual representations or warranties that is not remedied within a period (usually 90 days or less) after Fifth Third receives notice of the breach. Contracts for mortgage loan sales to the GSEs include various types of specific remedies and penalties that could be applied to inadequate



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responses to repurchase requests. If economic conditions and the housing market do not recover or future investor repurchase demand and success at appealing repurchase requests differ from past experience, Fifth Third could continue to have increased repurchase obligations and increased loss severity on repurchases, requiring material additions to the repurchase reserve.

*If Fifth Third does not adjust to rapid changes in the financial services industry, its financial performance may suffer.*

Fifth Third's ability to deliver strong financial performance and returns on investment to shareholders will depend in part on its ability to expand the scope of available financial services to meet the needs and demands of its customers. In addition to the challenge of competing against other banks in attracting and retaining customers for traditional banking services, Fifth Third's competitors also include securities dealers, brokers, mortgage bankers, investment advisors, specialty finance and insurance companies who seek to offer one-stop financial services that may include services that banks have not been able or allowed to offer to their customers in the past or may not be currently able or allowed to offer. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, as well as the accelerating pace of consolidation among financial service providers.

*If Fifth Third is unable to grow its deposits, it may be subject to paying higher funding costs.*

The total amount that Fifth Third pays for funding costs is dependent, in part, on Fifth Third's ability to grow its deposits. If Fifth Third is unable to sufficiently grow its deposits, it may be subject to paying higher funding costs. Fifth Third competes with banks and other financial services companies for deposits. If competitors raise the rates they pay on deposits, Fifth Third's funding costs may increase, either because Fifth Third raises rates to avoid losing deposits or because Fifth Third loses deposits and must rely on more expensive sources of funding. Higher funding costs reduce our net interest margin and net interest income. Fifth Third's bank customers could take their money out of the bank and put it in alternative investments, causing Fifth Third to lose a lower cost source of funding. Checking and savings account balances and other forms of customer deposits may decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff.

*The Bancorp's ability to receive dividends from its subsidiaries accounts for most of its revenue and could affect its liquidity and ability to pay dividends.*

Fifth Third Bancorp is a separate and distinct legal entity from its subsidiaries. Fifth Third Bancorp typically receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on Fifth Third Bancorp's stock and interest and principal on its debt. Various federal and/or state laws and regulations, as well as regulatory expectations, limit the amount of dividends that the Bancorp's banking subsidiary and certain nonbank subsidiaries may pay. Also, Fifth Third Bancorp's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of that subsidiary's creditors. Limitations on the Bancorp's ability to receive dividends from its subsidiaries could have a material adverse effect on its liquidity and ability to pay dividends on stock or interest and principal on its debt.

*The financial services industry is highly competitive and creates competitive pressures that could adversely affect Fifth Third's revenue and profitability.*

The financial services industry in which Fifth Third operates is highly competitive. Fifth Third competes not only with commercial

banks, but also with insurance companies, mutual funds, hedge funds, and other companies offering financial services in the U.S., globally and over the internet. Fifth Third competes on the basis of several factors, including capital, access to capital, revenue generation, products, services, transaction execution, innovation, reputation and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms. These developments could result in Fifth Third's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. Fifth Third may experience pricing pressures as a result of these factors and as some of its competitors seek to increase market share by reducing prices.

*Fifth Third and/or the holders of its securities could be adversely affected by unfavorable ratings from rating agencies.*

Fifth Third's ability to access the capital markets is important to its overall funding profile. This access is affected by the ratings assigned by rating agencies to Fifth Third, certain of its subsidiaries and particular classes of securities they issue. The interest rates that Fifth Third pays on its securities are also influenced by, among other things, the credit ratings that it, its subsidiaries and/or its securities receive from recognized

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rating agencies. A downgrade to Fifth Third or its subsidiaries' credit rating could affect its ability to access the capital markets, increase its borrowing costs and negatively impact its profitability. A ratings downgrade to Fifth Third, its subsidiaries or their securities could also create obligations or liabilities to Fifth Third under the terms of its outstanding securities that could increase Fifth Third's costs or otherwise have a negative effect on its results of operations or financial condition. Additionally, a downgrade of the credit rating of any particular security issued by Fifth Third or its subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

### ***Fifth Third could suffer if it fails to attract and retain skilled personnel.***

Fifth Third's success depends, in large part, on its ability to attract and retain key individuals. Competition for qualified candidates in the activities and markets that Fifth Third serves is great and Fifth Third may not be able to hire these candidates and retain them. If Fifth Third is not able to hire or retain these key individuals, Fifth Third may be unable to execute its business strategies and may suffer adverse consequences to its business, operations and financial condition.

In June 2010, the federal banking agencies issued joint guidance on executive compensation designed to help ensure that a banking organization's incentive compensation policies do not encourage imprudent risk taking and are consistent with the safety and soundness of the organization. In addition, the Dodd-Frank Act requires those agencies, along with the SEC, to adopt rules to require reporting of incentive compensation and to prohibit certain compensation arrangements. The federal banking agencies and SEC proposed such rules in April 2011. If Fifth Third is unable to attract and retain qualified employees, or do so at rates necessary to maintain its competitive position, or if compensation costs required to attract and retain employees become more expensive, Fifth Third's performance, including its competitive position, could be materially adversely affected.

### ***Fifth Third's mortgage banking revenue can be volatile from quarter to quarter.***

Fifth Third earns revenue from the fees it receives for originating mortgage loans and for servicing mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue Fifth Third receives from loan originations. At the same time,

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revenue from MSR's can increase through increases in fair value. When rates fall, mortgage originations tend to increase and the value of MSR's tends to decline, also with some offsetting revenue effect. Even though the origination of mortgage loans can act as a natural hedge, the hedge is not perfect, either in amount or timing. For example, the negative effect on revenue from a decrease in the fair value of residential MSR's is immediate, but any offsetting revenue benefit from more originations and the MSR's relating to the new loans would accrue over time. It is also possible that, because of the recession and deteriorating housing market, even if interest rates were to fall, mortgage originations may also fall or any increase in mortgage originations may not be enough to offset the decrease in the MSR's value caused by the lower rates.

Fifth Third typically uses derivatives and other instruments to hedge its mortgage banking interest rate risk. Fifth Third generally does not hedge all of its risks, and the fact that Fifth Third attempts to hedge any of the risks does not mean Fifth Third will be successful. Hedging is a complex process, requiring sophisticated models and constant monitoring. Fifth Third may use hedging instruments tied to U.S. Treasury rates, LIBOR or Eurodollars that may not perfectly correlate with the value or income being hedged. Fifth Third could incur significant losses from its hedging activities. There may be periods where Fifth Third elects not to use derivatives and other instruments to hedge mortgage banking interest rate risk.

***Changes in interest rates could also reduce the value of MSR's.***

Fifth Third acquires MSR's when it keeps the servicing rights after the sale or securitization of the loans that have been originated or when it purchases the servicing rights to mortgage loans originated by other lenders. Fifth Third initially measures all residential MSR's at fair value and subsequently amortizes the MSR's in proportion to, and over the period of, estimated net servicing income. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance.

Changes in interest rates can affect prepayment assumptions and thus fair value. When interest rates fall, borrowers are usually more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of

prepayment increases, the fair value of MSR's can decrease. Each quarter Fifth Third evaluates the fair value of MSR's, and decreases in fair value below amortized cost reduce earnings in the period in which the decrease occurs.

***The preparation of Fifth Third's financial statements requires the use of estimates that may vary from actual results.***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make significant estimates that affect the financial statements. Two of Fifth Third's most critical estimates are the level of the ALLL and the valuation of MSR's. Due to the uncertainty of estimates involved, Fifth Third may have to significantly increase the ALLL and/or sustain credit losses that are significantly higher than the provided allowance and could recognize a significant provision for impairment of its MSR's. If Fifth Third's ALLL is not adequate, Fifth Third's business, financial condition, including its liquidity and capital, and results of operations could be materially adversely affected.

Fifth Third regularly reviews its litigation reserves for adequacy considering its litigation risks and probability of incurring losses related to litigation. However, Fifth Third cannot be certain that its current litigation reserves will be adequate over time to cover its losses in litigation due to higher than anticipated settlement costs, prolonged litigation, adverse judgments, or other factors that are largely outside of Fifth Third's control. If Fifth Third's litigation

reserves are not adequate, Fifth Third's business, financial condition, including its liquidity and capital, and results of operations could be materially adversely affected. Additionally, in the future, Fifth Third may increase its litigation reserves, which could have a material adverse effect on its capital and results of operations.

***Changes in accounting standards could impact Fifth Third's reported earnings and financial condition.***

The accounting standard setters, including the FASB, the SEC and other regulatory bodies, periodically change the financial accounting and reporting standards that govern the preparation of Fifth Third's consolidated financial statements. These changes can be hard to predict and can materially impact how Fifth Third records and reports its financial condition and results of operations. In some cases, Fifth Third could be required to apply a new or revised standard retroactively, which would result in the recasting of Fifth Third's prior period financial statements.

***Future acquisitions may dilute current shareholders' ownership of Fifth Third and may cause Fifth Third to become more susceptible to adverse economic events.***

Future business acquisitions could be material to Fifth Third and it may issue additional shares of stock to pay for those acquisitions, which would dilute current shareholders' ownership interests. Acquisitions also could require Fifth Third to use substantial cash or other liquid assets or to incur debt. In those events, Fifth Third could become more susceptible to economic downturns and competitive pressures.

***Difficulties in combining the operations of acquired entities with Fifth Third's own operations may prevent Fifth Third from achieving the expected benefits from its acquisitions.***

Inherent uncertainties exist when integrating the operations of an acquired entity. Fifth Third may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. In addition, the markets and industries in which Fifth Third and its potential acquisition targets operate are highly competitive. Fifth Third may lose customers or the customers of acquired entities as a result of an acquisition. Future acquisition and integration activities may require Fifth Third to devote substantial time and resources and as a result Fifth Third may not be able to pursue other business opportunities.

After completing an acquisition, Fifth Third may find certain items are not accounted for properly in accordance with financial accounting and reporting standards. Fifth Third may also not realize the expected benefits of the acquisition due to lower financial results pertaining to the acquired entity. For example, Fifth Third could experience higher charge offs than originally anticipated related to the acquired loan portfolio.

***Fifth Third may sell or consider selling one or more of its businesses. Should it determine to sell such a business, it may not be able to generate gains on sale or related increase in shareholders' equity commensurate with desirable levels. Moreover, if Fifth Third sold such businesses, the loss of income could have an adverse effect on its earnings and future growth.***

Fifth Third owns several non-strategic businesses that are not significantly synergistic with its core financial services businesses. Fifth Third has, from time to time, considered the sale of such businesses. If it were to determine to sell such businesses, Fifth Third would be subject to market forces that may make completion of a sale unsuccessful or may not be able to do so within a desirable time frame. If Fifth Third were to complete the sale of non-core businesses, it would suffer the loss of income from the sold

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businesses, and such loss of income could have an adverse effect on its future earnings and growth.

*Fifth Third relies on its systems and certain service providers, and certain failures could materially adversely affect operations.*

Fifth Third collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both Fifth Third and third party service providers. Fifth Third has security, backup and recovery systems in place, as well as a business continuity plan to ensure the system will not be inoperable. Fifth Third also has security to prevent unauthorized access to the system. In addition, Fifth Third requires its third party service providers to maintain similar controls. However, Fifth Third cannot be certain that the measures will be successful. A security breach in the system and loss of confidential information such as credit card numbers and related information could result in losing the customers' confidence and thus the loss of their business as well as additional significant costs for privacy monitoring activities.

Fifth Third's necessary dependence upon automated systems to record and process its transaction volume poses the risk that technical system flaws or employee errors, tampering or manipulation of those systems will result in losses and may be difficult to detect. Fifth Third may also be subject to disruptions of its operating systems arising from events that are beyond its control (for example, computer viruses or electrical or telecommunications outages). Fifth Third is further exposed to the risk that its third party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors as Fifth Third). These disruptions may interfere with service to Fifth Third's customers and result in a financial loss or liability.

*Fifth Third is exposed to operational and reputational risk.*

Fifth Third is exposed to many types of operational risk, including reputational risk, legal and compliance risk, environmental risks from its properties, the risk of fraud or theft by employees, customers or outsiders, unauthorized transactions by employees, operating system disruptions or operational errors.

Negative public opinion can result from Fifth Third's actual or alleged conduct in activities, such as lending practices, data security, corporate governance and acquisitions, and may damage Fifth Third's reputation. Negative public opinion has been observed through the media coverage of public protests and in relation to banks participating in the U.S. Treasury's TARP program, in which Fifth Third was a participant. Additionally, actions taken by government regulators and community organizations may also damage Fifth Third's reputation. This negative public opinion can adversely affect Fifth Third's ability to attract and keep customers and can expose it to litigation and regulatory action.

*The results of Vantiv Holding, LLC could have a negative impact on Fifth Third's operating results and financial condition.*

During the second quarter of 2009, Fifth Third sold an approximate 51% interest in its processing business, Vantiv Holding, LLC (formerly Fifth Third Processing Solutions) to Advent International. Based on Fifth Third's current ownership share in Vantiv Holding, LLC, of approximately 49%, Vantiv Holding, LLC is accounted for under the equity method and is not consolidated. Poor operating results of Vantiv Holding, LLC could negatively affect the operating results of Fifth Third. In connection with the sale, Fifth Third provided Advent International with certain put rights that are exercisable in the event of three unlikely circumstances. The exercise of the put rights would result in Vantiv Holding, LLC becoming a wholly owned subsidiary of Fifth Third. As a result, Vantiv Holding, LLC would be consolidated and would subject

Fifth Third to the risks inherent in integrating a business. Additionally, such a change in the accounting treatment for Vantiv Holding, LLC may adversely impact Fifth Third's capital. Fifth Third participates in a multi lender credit facility to Vantiv Holding, LLC and repayment of these loans is contingent on future cash flows to Vantiv Holding, LLC.

*Fifth Third's interests in Vantiv Holding, LLC may change and the potential effects of those changes are uncertain.*

In November 2011, Vantiv Holding, LLC, through its affiliated entity, Vantiv Inc., filed a registration statement with the SEC which contemplates an IPO of shares of Class A Common Stock of Vantiv Inc. The IPO contemplates a corporate reorganization of Vantiv Inc., which reorganization could substantially change Fifth Third's interests in Vantiv Holding, LLC. The potential effects on Fifth Third may include, without limitation, changes in (i) the Vantiv entities in which Fifth Third holds equity ownership, (ii) the type of equity interests owned by Fifth Third in those entities, (iii) Fifth Third's overall ownership percentage interests in those entities, due to any sale by Fifth Third of any of its existing equity interests in Vantiv Holding, LLC or its ownership percentage is diluted through any sale of additional equity by Vantiv Holding, LLC in or in connection with the IPO, and (iv) Fifth Third's voting and corporate governance rights. If Fifth Third sells any of its ownership interests in Vantiv Holding, LLC in connection with the Vantiv Inc. IPO, the amount of such sales have not yet been determined and the price at

which such sales would be effected cannot be determined unless and until the IPO is completed. Fifth Third cannot predict whether the Vantiv Inc. IPO will be completed and/or the final terms and conditions thereof. Accordingly, the potential impacts on Fifth Third of a Vantiv Inc. IPO are uncertain.

*Weather related events or other natural disasters may have an effect on the performance of Fifth Third's loan portfolios, especially in its coastal markets, thereby adversely impacting its results of operations.*

Fifth Third's footprint stretches from the upper Midwestern to lower Southeastern regions of the United States. This area has experienced weather events including hurricanes and other natural disasters. The nature and level of these events and the impact of global climate change upon their frequency and severity cannot be predicted. If large scale events occur, they may significantly impact its loan portfolios by damaging properties pledged as collateral as well as impairing its borrower's ability to repay their loans.

#### **RISKS RELATED TO THE LEGAL AND REGULATORY ENVIRONMENT**

*As a regulated entity, the Bancorp is subject to certain capital requirements that may limit its operations and potential growth.*

The Bancorp is a bank holding company and a financial holding company. As such, it is subject to the comprehensive, consolidated supervision and regulation of the FRB, including risk-based and leverage capital requirements. The Bancorp must maintain certain risk-based and leverage capital ratios as required by its banking regulators and which can change depending upon general economic conditions and the Bancorp's particular condition, risk profile and growth plans. Compliance with the capital requirements, including leverage ratios, may limit operations that require the intensive use of capital and could adversely affect the Bancorp's ability to expand or maintain present business levels.

The Bancorp's banking subsidiary must remain well-capitalized, well-managed and maintain at least a Satisfactory CRA rating for the Bancorp to retain its status as a financial holding company. Failure to meet these requirements could result in the FRB placing

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limitations or conditions on the Bancorp's activities (and the commencement of new activities) and could ultimately result in the loss of financial holding company status. In addition, failure by the Bancorp's banking subsidiary to meet applicable capital guidelines could subject the bank to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital, and the termination of deposit insurance by the FDIC.

***Fifth Third's business, financial condition and results of operations could be adversely affected by new or changed regulations and by the manner in which such regulations are applied by regulatory authorities.***

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies placing increased focus on and scrutiny of the financial services industry. The U.S. government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis, by introducing various actions and passing legislations such as the Dodd Frank Act. Such programs and legislation subject Fifth Third and other financial institutions to restrictions, oversight and/or costs that may have an impact on Fifth Third's business, financial condition, results of operations or the price of its common stock.

New proposals for legislation and regulations continue to be introduced that could further substantially increase regulation of the financial services industry. Fifth Third cannot predict whether any pending or future legislation will be adopted or the substance and impact of any such new legislation on Fifth Third. Additional regulation could affect Fifth Third in a substantial way and could have an adverse effect on its business, financial condition and results of operations.

***Fifth Third is subject to various regulatory requirements that limit its operations and potential growth.***

Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions and their holding companies, the FRB, the CFPB, and the Ohio Division of Financial Institutions have the authority to compel or restrict certain actions by Fifth Third and its banking subsidiary. Fifth Third and its banking subsidiary are subject to such supervisory authority and, more generally, must, in certain instances, obtain prior regulatory approval before engaging in certain activities or corporate decisions. There can be no assurance that such approvals, if required, would be forthcoming or that such approvals would be granted in a timely manner. Failure to receive any such approval, if required, could limit or impair Fifth Third's operations, restrict its growth and/or affect its dividend policy. Such actions and activities subject to prior approval include, but are not limited to, increasing dividends paid by Fifth Third or its banking subsidiary, entering into a merger or acquisition transaction, acquiring or establishing new branches, and entering into certain new businesses.

In addition, Fifth Third, as well as other financial institutions more generally, have recently been subjected to increased scrutiny from regulatory authorities stemming from broader systemic regulatory concerns, including with respect to stress testing, capital levels, asset quality, provisioning and other prudential matters, arising as a result of the recent financial crisis and efforts to ensure that financial institutions take steps to improve their risk management and prevent future crises.

In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, which restrict or limit a financial institution. Finally, as part of Fifth Third's regular examination process, Fifth Third's and its banking subsidiary's respective regulators may advise it and its banking subsidiary to operate under various restrictions as a prudential matter. Such supervisory actions or restrictions, if and in whatever manner imposed, could have a

material adverse effect on Fifth Third's business and results of operations and may not be publicly disclosed.

***Fifth Third and/or its affiliates are or may become involved from time to time in information-gathering requests, investigations and proceedings by government and self-regulatory agencies which may lead to adverse consequences.***

Fifth Third and/or its affiliates are or may become involved from time to time in information-gathering requests, reviews, investigations and proceedings (both formal and informal) by government and self-regulatory agencies, including the SEC, regarding their respective businesses. Such matters may result in material adverse consequences, including without limitation, adverse judgments, settlements, fines, penalties, injunctions or other actions, amendments and/or restatements of Fifth Third's SEC filings and/or financial statements, as applicable, and/or determinations of material weaknesses in its disclosure controls and procedures. The SEC is investigating and has made several requests for information, including by subpoena, concerning issues which Fifth Third understands relate to accounting and reporting matters involving certain of its commercial loans. This could lead to an enforcement proceeding by the SEC which, in turn, may result in one or more such material adverse consequences.

***Deposit insurance premiums levied against Fifth Third may increase if the number of bank failures increase or the cost of resolving failed banks increases.***

The FDIC maintains a DIF to resolve the cost of bank failures. The DIF is funded by fees assessed on insured depository institutions including Fifth Third. The magnitude and cost of resolving an increased number of bank failures have reduced the DIF. Future deposit premiums paid by Fifth Third depend on the level of the DIF and the magnitude and cost of future bank failures. Fifth Third also may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the DIF of the FDIC and reduced the ratio of reserves to insured deposits.

***Legislative or regulatory compliance, changes or actions or significant litigation, could adversely impact Fifth Third or the businesses in which Fifth Third is engaged.***

Fifth Third is subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of its operations and limit the businesses in which Fifth Third may engage. These laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact Fifth Third or its ability to increase the value of its business. Additionally, actions by regulatory agencies or significant litigation against Fifth Third could cause it to devote significant time and resources to defending itself and may lead to penalties that materially affect Fifth Third and its shareholders. Future changes in the laws, including tax laws, or regulations or their interpretations or enforcement may also be materially adverse to Fifth Third and its shareholders or may require Fifth Third to expend significant time and resources to comply with such requirements.



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On July 21, 2010 the President of the United States signed into law the Dodd-Frank Act. The Dodd-Frank Act will have material implications for Fifth Third and the entire financial services industry. Among other things it will or potentially could:

Result in Fifth Third being subject to enhanced oversight and scrutiny as a result of being a bank holding company with \$50 billion or more in consolidated assets;

Result in the appointment of the FDIC as receiver of Fifth Third in an orderly liquidation proceeding, if the Secretary of the U.S. Treasury, upon recommendation of two-thirds of

the FRB and the FDIC and in consultation with the President of the United States, finds Fifth Third to be in default or danger of default;

Affect the levels of capital and liquidity with which Fifth Third must operate and how it plans capital and liquidity levels (including a phased-in elimination of Fifth Third's existing trust preferred securities as Tier 1 capital);

Subject Fifth Third to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;

Impact Fifth Third's ability to invest in certain types of entities or engage in certain activities;

Impact a number of Fifth Third's business and risk management strategies;

Restrict the revenue that Fifth Third generates from certain businesses, including interchange fee revenue generated by Fifth Third's debit and credit card businesses;

Subject Fifth Third to a new CFPB, which will have broad rule-making and enforcement authorities; and

Subject Fifth Third to oversight and regulation by a new and different litigation and regulatory regime.

As the Dodd-Frank Act requires that many studies be conducted and that hundreds of regulations be written in order to fully implement it, the full impact of this legislation on Fifth Third, its business strategies and financial performance cannot be known at this time, and may not be known for a number of years. However, these impacts are expected to be substantial and some of them are likely to adversely affect Fifth Third and its financial performance. The extent to which Fifth Third can adjust its strategies to offset such adverse impacts also is not known at this time.

***Fifth Third and other financial institutions have been the subject of increased litigation which could result in legal liability and damage to its reputation.***

Fifth Third and certain of its directors and officers have been named from time to time as defendants in various class actions and other litigation relating to Fifth Third's business and activities. Past, present and future litigation have included or could include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Fifth Third is also involved from time to time in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding its business. These matters also could result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Like other large financial institutions and companies, Fifth Third is also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory action against Fifth Third could materially adversely affect its business, financial condition or results of operations and/or cause significant reputational harm to its business.

***Fifth Third's ability to pay or increase dividends on its common stock or to repurchase its capital stock is restricted.***

Fifth Third's ability to pay dividends or repurchase stock is subject to regulatory requirements and the need to meet regulatory expectations.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****STATEMENTS OF INCOME ANALYSIS*****Net Interest Income***

Net interest income is the interest earned on securities, loans and leases (including yield-related fees) and other interest-earning assets less the interest paid for core deposits (includes transaction deposits and other time deposits) and wholesale funding (includes certificates of deposit \$100,000 and over, other deposits, federal funds purchased, short-term borrowings and long-term debt). The net interest margin is calculated by dividing net interest income by average interest-earning assets. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is typically greater than net interest rate spread due to the interest income earned on those assets that are funded by noninterest-bearing liabilities, or free funding, such as demand deposits or shareholders' equity.

Table 5 presents the components of net interest income, net interest margin and net interest rate spread for the years ended December 31, 2011, 2010 and 2009. 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. Table 6 provides the relative impact of changes in the balance sheet and changes in interest rates on net interest income.

Net interest income was \$3.6 billion for each of the years ended December 31, 2011 and 2010. 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 \$40 million during 2011 and \$68 million during 2010. 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 \$15 million in additional net interest income during 2012 as a result of the amortization and accretion of premiums and discounts on acquired loans and deposits.

For the year ended December 31, 2011, net interest income was adversely impacted by lower yields on both the commercial and consumer loan portfolios partially offset by an increase in average consumer loans and a decrease in interest expense compared to the year ended December 31, 2010. Yields on the commercial and consumer loan portfolio decreased throughout 2011 as the result of low interest rates during the year. Average consumer loans increased primarily as the result of increases in average residential mortgage loans and automobile loans partially offset by a decrease in home equity loans compared to the year ended December 31, 2010. The decrease in interest expense was primarily the result of a \$3.2 billion decrease in average interest bearing liabilities from the year ended

December 31, 2010, coupled with a continued mix shift to lower cost core deposits as well as the benefit of lower rates offered on savings account balances and other time deposits. The decrease in average interest bearing liabilities was the result of migration from certificates of deposit into demand deposit accounts due to low interest rates during 2011. For the year ended December 31, 2011, the net interest rate spread increased to 3.42% from 3.39% in 2010 as the benefit of a 25 bps decrease in rates on interest bearing liabilities was partially offset by a 22 bps decrease in yield on average interest earnings assets.

Net interest margin was 3.66% for the years ended December 31, 2011 and 2010. Net interest margin was impacted by the amortization and accretion of premiums and discounts on acquired loans and deposits that resulted in an increase of 5 bps during 2011 compared to 7 bps during 2010. Exclusive of these amounts, net interest margin increased 2 bps for the year ended December 31, 2011 compared to the prior year primarily as the result of the previously mentioned mix shift to lower cost core deposits during 2011, an increase in free funding balances and a decrease in average interest earnings assets partially offset by the previously mentioned decrease on the yield of average loans and leases.

Total average interest-earning assets decreased one percent for the year ended December 31, 2011 compared to the prior year primarily as the result of an 11% decrease in the average investment portfolio and a one percent decrease in average commercial loans; partially offset by a four percent increase in average consumer loans. For more information on the Bancorp's investment securities portfolio and loan and lease portfolio,

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see the Investment Securities and Loan and Lease sections of MD&A.

Interest income from loans and leases decreased \$207 million, or five percent, compared to the year ended December 31, 2010 driven primarily by a 32 bps decrease in average loan yields partially offset by a four percent increase in average consumer loans. Yields across much of the loan and lease portfolio decreased as the result of lower interest rates on newly originated loans and a decline in interest rates on automobile loans due to increased competition. Exclusive of the amortization and accretion of premiums and discounts on acquired loans, interest income from loans and leases decreased \$179 million compared to the year ended December 31, 2010. Interest income from investment securities and short-term investments decreased \$64 million, or 10%, from the prior year primarily as the result of a \$2.2 billion decrease in the average balance and a 16 bps decrease in the average yield of taxable securities.

Average core deposits increased \$2.5 billion, or three percent, compared to the year ended December 31, 2010 primarily due to an increase in average demand deposits and average savings deposits partially offset by a decrease in average time deposits. The cost of average core deposits decreased to 36 bps for the year ended December 31, 2011 compared to 61 bps from the prior year. This decrease was primarily the result of a mix shift to lower cost core deposits as a result of runoff of higher priced CDs combined with a 24 bps decrease in rates on average savings deposits and a 39 bps decrease in rates on average time deposits compared to year ended December 31, 2010.

Interest expense on wholesale funding for the year ended December 31, 2011 decreased \$38 million, or nine percent, compared to the prior year, primarily as a result of a \$2.0 billion decrease in the average balance partially offset by a 4 bps increase in the rate. Refer to the Borrowings section of MD&A for additional information on the Bancorp's changes in average borrowings. During the year ended December 31, 2011, wholesale funding represented 23% of interest bearing liabilities compared to 25% during the prior year. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TABLE 5: CONSOLIDATED AVERAGE BALANCE SHEET AND ANALYSIS OF NET INTEREST INCOME

For the years ended December 31	2011			2010			2009		
(\$ in millions)	Average Balance	Revenue/ Cost	Average Yield/Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Revenue/ Cost	Average Yield/Rate
<b>Assets</b>									
Interest-earning assets:									
Loans and leases: <sup>(a)</sup>									
Commercial and industrial									
loans	\$ 28,546	\$ 1,240	4.34 %	\$ 26,334	\$ 1,238	4.70 %	\$ 27,556	\$ 1,162	4.22 %
Commercial mortgage	10,447	417	3.99	11,585	476	4.11	12,511	545	4.35
Commercial construction	1,740	53	3.06	3,066	93	3.01	4,638	134	2.90
Commercial leases	3,341	133	3.99	3,343	147	4.40	3,543	150	4.24
Subtotal commercial	44,074	1,843	4.18	44,328	1,954	4.41	48,248	1,991	4.13
Residential mortgage loans	11,318	503	4.45	9,868	478	4.84	10,886	602	5.53
Home equity	11,077	433	3.91	11,996	479	4.00	12,534	520	4.15
Automobile loans	11,352	530	4.67	10,427	608	5.83	8,807	556	6.31
Credit card	1,864	184	9.86	1,870	201	10.73	1,907	193	10.10
Other consumer loans/leases	529	136	25.77	743	116	15.58	1,009	86	8.49
Subtotal consumer	36,140	1,786	4.94	34,904	1,882	5.39	35,143	1,957	5.57
Total loans and leases	80,214	3,629	4.52	79,232	3,836	4.84	83,391	3,948	4.73
Securities:									
Taxable	15,334	596	3.89	16,054	650	4.05	16,861	721	4.28
Exempt from income taxes <sup>(a)</sup>	103	6	5.41	317	13	3.92	239	17	7.19
Other short-term investments	2,031	5	0.25	3,328	8	0.25	1,035	1	0.14
Total interest-earning assets	97,682	4,236	4.34	98,931	4,507	4.56	101,526	4,687	4.62
Cash and due from banks	2,352			2,245			2,329		
Other assets	15,335			14,841			14,266		
Allowance for loan and lease losses	(2,703)			(3,583)			(3,265)		
Total assets	\$ 112,666			\$ 112,434			\$ 114,856		
<b>Liabilities and Equity</b>									
Interest-bearing liabilities:									
Interest checking	\$ 18,707	\$ 49	0.26 %	\$ 18,218	\$ 52	0.29 %	\$ 15,070	\$ 40	0.26 %
Savings	21,652	67	0.31	19,612	107	0.55	16,875	127	0.75
Money market	5,154	14	0.27	4,808	19	0.40	4,320	26	0.60
Foreign office deposits	3,490	10	0.28	3,355	12	0.35	2,108	10	0.45
Other time deposits	6,260	140	2.23	10,526	276	2.62	14,103	470	3.33
Certificates \$100,000 and over	3,656	72	1.97	6,083	125	2.06	10,367	280	2.70
Other deposits	7		0.03	6		0.13	157		0.20
Federal funds purchased	345		0.11	291	1	0.17	517	1	0.20
Other short-term borrowings	2,777	3	0.12	1,635	3	0.21	6,463	42	0.64
Long-term debt	10,154	306	3.01	10,902	290	2.65	11,035	318	2.89
Total interest-bearing liabilities	72,202	661	0.92	75,436	885	1.17	81,015	1,314	1.62
Demand deposits	23,389			19,669			16,862		
Other liabilities	4,189			3,580			3,926		
Total liabilities	99,780			98,685			101,803		
Total equity	12,886			13,749			13,053		
Total liabilities and equity	\$ 112,666			\$ 112,434			\$ 114,856		
Net interest income		\$ 3,575			\$ 3,622			\$ 3,373	
Net interest margin			3.66 %			3.66 %			3.32 %
Net interest rate spread			3.42			3.39			3.00
Interest-bearing liabilities to interest-earning assets			73.92			76.25			79.80

(a) The FTE adjustments included in the above table are \$18 for the years ended December 31, 2011 and 2010 and \$19 for the year ended December 31, 2009. The federal statutory tax rate utilized was 35% for all periods presented.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TABLE 6: CHANGES IN NET INTEREST INCOME ATTRIBUTABLE TO VOLUME AND YIELD/RATE (a)

For the years ended December 31 (\$ in millions)	2011 Compared to 2010			2010 Compared to 2009		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
<b>Assets</b>						
Interest-earning assets:						
Loans and leases:						
Commercial and industrial loans	\$ 100	(98)	2	\$ (53)	129	76
Commercial mortgage	(45)	(14)	(59)	(39)	(30)	(69)
Commercial construction	(42)	2	(40)	(46)	5	(41)
Commercial leases		(14)	(14)	(8)	5	(3)
Subtotal commercial	13	(124)	(111)	(146)	109	(37)
Residential mortgage loans	67	(42)	25	(53)	(71)	(124)
Home equity	(34)	(12)	(46)	(22)	(19)	(41)
Automobile loans	51	(129)	(78)	97	(45)	52
Credit card	(1)	(16)	(17)	(4)	12	8
Other consumer loans/leases	(41)	61	20	(27)	57	30
Subtotal consumer	42	(138)	(96)	(9)	(66)	(75)
Total loans and leases	55	(262)	(207)	(155)	43	(112)
Securities:						
Taxable	(29)	(25)	(54)	(34)	(37)	(71)
Exempt from income taxes	(10)	3	(7)	6	(10)	(4)
Other short-term investments	(3)		(3)	5	2	7
Total interest-earning assets	13	(284)	(271)	(178)	(2)	(180)
Total change in interest income	\$ 13	(284)	(271)	\$ (178)	(2)	(180)
<b>Liabilities and Equity</b>						
Interest-bearing liabilities:						
Interest checking	\$ 2	(5)	(3)	\$ 8	4	12
Savings	11	(51)	(40)	18	(38)	(20)
Money market	1	(6)	(5)	2	(9)	(7)
Foreign office deposits		(2)	(2)	4	(2)	2
Other time deposits	(99)	(37)	(136)	(105)	(89)	(194)
Certificates \$100,000 and over	(48)	(5)	(53)	(98)	(57)	(155)
Federal funds purchased	(1)		(1)			
Other short-term borrowings	2	(2)		(21)	(18)	(39)
Long-term debt	(21)	37	16	(3)	(25)	(28)
Total interest-bearing liabilities	(153)	(71)	(224)	(195)	(234)	(429)
Total change in interest expense	(153)	(71)	(224)	(195)	(234)	(429)
Total change in net interest income	\$ 166	(213)	(47)	\$ 17	232	249

(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.

### 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. 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 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.

The provision for loan and lease losses decreased to \$423 million in 2011 compared to \$1.5 billion in 2010. The decrease in provision expense for 2011 compared to 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 \$749 million from \$3.0 billion at December 31, 2010 to \$2.3 billion at December 31, 2011. As of December 31, 2011, the ALLL as a percent of loans and leases decreased to 2.78%, compared to 3.88% at December 31, 2010.

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Refer to the Credit Risk Management section of the MD&A as well as Note 6 of the Notes to 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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
***Noninterest Income***

Noninterest income decreased \$274 million, or 10%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The components of noninterest income are as follows:

**TABLE 7: NONINTEREST INCOME**

For the years ended December 31 (\$ in millions)	2011	2010	2009	2008	2007
Mortgage banking net revenue	\$ 597	647	553	199	133
Service charges on deposits	520	574	632	641	579
Investment advisory revenue	375	361	326	366	382
Corporate banking revenue	350	364	372	431	367
Card and processing revenue	308	316	615	912	826
Gain on sale of the processing business	-	-	1,758	-	-
Other noninterest income	250	406	479	363	153
Securities gains (losses), net	46	47	(10)	(86)	21
Securities gains, net, non-qualifying hedges on mortgage servicing rights	9	14	57	120	6
Total noninterest income	\$ 2,455	2,729	4,782	2,946	2,467

***Mortgage banking net revenue***

Mortgage banking net revenue decreased \$50 million in 2011 compared to 2010. The components of mortgage banking net revenue are as follows:

**TABLE 8: COMPONENTS OF MORTGAGE BANKING NET REVENUE**

For the years ended December 31 (\$ in millions)	2011	2010	2009
Origination fees and gains on loan sales	\$ 396	490	485
Net servicing revenue:			
Gross servicing fees	234	221	197
Servicing rights amortization	(135)	(137)	(146)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	102	73	17
Net servicing revenue	201	157	68
Mortgage banking net revenue	\$ 597	647	553

Origination fees and gains on loan sales decreased \$94 million in 2011 compared to 2010 primarily as the result of a 26% decrease in the profit margin on sold residential mortgage loans due to a decrease in interest rates and an eight percent decrease in residential mortgage loan originations compared to 2010. Residential mortgage loan originations decreased to \$18.6 billion during 2011 compared to \$20.3 billion during 2010. The decrease in originations is primarily due to a decrease in refinancing activity as many customers have taken advantage of the low interest rate environment in prior years.

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 increased \$44 million in 2011 compared to 2010 driven primarily by an increase in valuation adjustments and gross servicing fees. The net valuation adjustment of \$102 million during 2011 included \$344 million in gains from derivatives economically hedging the MSRs partially offset by \$242 million in temporary impairment on the MSR portfolio. The gain in the net valuation adjustment is reflective of refinancing activity in recent years that has contributed to prepayments being less sensitive to lower mortgage rates due to customers taking advantage of lower rates in earlier periods as well as the impact of tighter underwriting standards.

Additionally, the net MSR/hedge position has benefited from the positive carry of the hedge and the widening spread between mortgage and swap rates. Gross servicing fees increased \$13 million in 2011 compared to 2010 as a result of an increase in the size of the Bancorp's servicing portfolio. The Bancorp's total residential loans serviced as of December 31, 2011 and 2010 was \$70.6 billion and \$63.2 billion, respectively, with \$57.1 billion and \$54.2 billion, respectively, of residential mortgage loans serviced for others.



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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 12 of the Notes to 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 13 of the Notes to 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. Net gains on sales of these securities were \$9 million and \$14 million in 2011 and 2010, respectively, and were recorded in securities gains, net, non-qualifying hedges on mortgage servicing rights in the Bancorp's Consolidated Statements of Income.

### *Service charges on deposits*

Service charges on deposits decreased \$54 million in 2011 compared to 2010. Consumer deposit revenue decreased \$59 million in 2011 compared to 2010 primarily due to the impact of Regulation E and new overdraft policies that resulted in a decrease in overdraft occurrences. Regulation E became effective on July 1, 2010 for new accounts and August 15, 2010 for existing accounts. Regulation E is a FRB rule that prohibits financial institutions from charging consumers fees for paying overdrafts on ATMs and one-time debit card transactions unless a consumer consents, or opts in, to the overdraft service for those types of transactions.

Commercial deposit revenue increased \$5 million in 2011 compared to 2010 primarily due to an increase in commercial account relationships and a decrease in earnings credits paid on customer balances as the result of a decrease in the crediting rate applied to balances. Commercial customers receive earnings credits to offset the fees charged for banking services on their deposit accounts such as account maintenance, lockbox, ACH transactions,

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

wire transfers and other ancillary corporate treasury management services. Earnings credits are based on the customer's average balance in qualifying deposits multiplied by the crediting rate. Qualifying deposits include demand deposits and interest-bearing checking accounts. The Bancorp has a standard crediting rate that is adjusted as necessary based on the competitive market conditions and changes in short-term interest rates.

*Investment advisory revenue*

Investment advisory revenue increased \$14 million in 2011 compared to 2010 primarily due to improved market performance and sales force expansion that resulted in increased brokerage activity. As of December 31, 2011, the Bancorp had approximately \$282 billion in total assets under care and managed \$24 billion in assets for individuals, corporations and not-for-profit organizations.

*Corporate banking revenue*

Corporate banking revenue decreased \$14 million in 2011 compared to 2010. The decrease from the prior year was primarily the result of decreases in institutional sales, syndication fees, lease remarketing fees and international income partially offset by an increase in business lending fees.

*Card and processing revenue*

Card and processing revenue decreased \$8 million in 2011 compared to 2010. The decrease was the result of an increase in costs associated with redemption of cash based reward points and the impact of the implementation of the Dodd-Frank Act's debit card interchange fee cap in the fourth quarter of 2011 partially offset by increased debit and credit card transaction volumes.

*Other noninterest income*

The major components of other noninterest income are as follows:

**TABLE 9: COMPONENTS OF OTHER NONINTEREST INCOME**

For the years ended December 31

(\$ in millions)	2011	2010	2009
Operating lease income	\$ 58	62	59
Equity method income from interest in Vantiv Holding, LLC	57	26	15
BOLI income (loss)	41	194	(2)
Cardholder fees	41	36	48
Net gain from warrant and put options associated with the processing business sale	39	5	18
Gain on loan sales	37	51	38
Consumer loan and lease fees	31	32	43
Insurance income	28	38	47
Banking center income	27	22	22
TSA revenue	21	49	76
Loss on sale of OREO	(71)	(78)	(70)
Loss on swap associated with the sale of Visa, Inc. class B shares	(83)	(19)	(2)
Gain on sale/redemption of Visa, Inc. ownership interests	-	-	244
Other, net	24	(12)	(57)
Total other noninterest income	\$ 250	406	479

Other noninterest income decreased \$156 million in 2011 compared to 2010 primarily due to a \$152 million litigation settlement related to one of the Bancorp's BOLI policies in 2010. Excluding the impact of the litigation settlement, other noninterest income was relatively flat compared to 2010 as an increase of \$64 million in losses on the swap associated with the sale of Visa, Inc. Class B shares, a decrease of \$28 million in TSA revenue and a decrease of \$14 million in the gains on loan sales were offset by increases of \$34 million in gains on the valuation of warrants and put options issued as part of the sale of the processing business, \$31 million in equity method income from the Bancorp's ownership interest in Vantiv Holding, LLC, \$15 million in gains from private equity investments (recorded in the other caption) and a \$12 million reduction in losses from fair value adjustments on commercial loans designated as held for sale (recorded in the other caption). 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 27 of the Notes to Consolidated Financial Statements.

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As part of the sale of the processing business, in 2009, the Bancorp entered into a TSA with The processing business that resulted in the Bancorp recognizing approximately \$21 million and \$49 million in revenue during 2011 and 2010, respectively, which were offset with expense from the servicing agreements recorded in noninterest expense.

**TABLE 10: NONINTEREST EXPENSE**

For the years ended December 31 (\$ in millions)	<b>2011</b>	2010	2009	2008	2007
Salaries, wages and incentives	<b>\$ 1,478</b>	1,430	1,339	1,337	1,239
Employee benefits	<b>330</b>	314	311	278	278
Net occupancy expense	<b>305</b>	298	308	300	269
Technology and communications	<b>188</b>	189	181	191	169
Card and processing expense	<b>120</b>	108	193	274	244
Equipment expense	<b>113</b>	122	123	130	123
Goodwill impairment	-	-	-	965	-
Other noninterest expense	<b>1,224</b>	1,394	1,371	1,089	989
Total noninterest expense	<b>\$ 3,758</b>	3,855	3,826	4,564	3,311
Efficiency ratio	<b>62.3 %</b>	60.7	46.9	70.4	60.2

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**Noninterest Expense**

Total noninterest expense decreased \$97 million, or three percent, in 2011 compared to 2010 primarily due to a decrease in other noninterest expense, as discussed below, partially offset by an increase in total personnel costs (salaries, wages and incentives plus employee benefits) and card and processing expense. Total personnel costs increased \$64 million, or four percent, in 2011 compared to 2010 due to an increase in base and incentive compensation driven by investments in the sales force beginning in mid-2010 and an overall increase in the number of employees. Full time equivalent employees totalled 21,334 at December 31, 2011 compared to 20,838 at December 31, 2010.

Card and processing expense increased \$12 million, or 11%, in 2011 compared to 2010 primarily as the result of growth in debit and credit card transactions. The major components of other noninterest expense are as follows:

**TABLE 11: COMPONENTS OF OTHER NONINTEREST EXPENSE**

For the years ended December 31

(\$ in millions)	2011	2010	2009
FDIC insurance and other taxes	\$ 201	242	269
Loan and lease	195	211	234
Losses and adjustments	129	187	110
Marketing	115	98	79
Affordable housing investments impairment	85	100	83
Professional service fees	58	77	63
Travel	52	51	41
Postal and courier	49	48	53
Operating lease	41	41	39
OREO expense	34	33	24
Recruitment and education	31	31	30
Data processing	29	24	21
Insurance	25	42	50
Intangible asset amortization	22	43	57
Supplies	18	24	25
Visa litigation reserve	-	-	(73)
Provision for unfunded commitments and letters of credit	(46)	(24)	99
Other, net	186	166	167
Total other noninterest expense	\$ 1,224	1,394	1,371

Total other noninterest expense decreased \$170 million, or 12%, in 2011 compared to 2010 primarily due to decreases in the provision for representation and warranty claims, recorded in losses and adjustments; FDIC insurance and other taxes, intangible asset amortization, professional service fees and an increase in the benefit from a decrease in the reserve for unfunded commitments and letters of credit partially offset by losses in 2011 related to the termination of two cash flow hedges and an increase in litigation reserves associated with bankcard association membership, both of which were recorded in the other caption.

The provision for representation and warranty claims decreased \$59 million in 2011 compared to 2010 primarily due to a decrease in demand requests during 2011 and a decrease in losses on repurchased loans compared to 2010. FDIC insurance and other taxes decreased \$41 million in 2011 compared to 2010 due primarily to the FDIC's implementation of amended regulations that revised the Federal Deposit Insurance Act effective April 1, 2011. The amended regulations modified the definition of an institution's deposit insurance assessment base from domestic deposits to quarterly average total assets less quarterly average tangible equity as well as the assessment rate calculation; additionally 2010 included expenses due to the Bancorp's participation in the FDIC's TLGP transaction account guarantee program, which was exited during the second quarter of 2010. The \$21 million decrease in intangible asset amortization was primarily the result of the full amortization of certain intangible assets in 2010 and 2011. The decrease in

professional service fees of \$19 million in 2011 compared to 2010 was primarily the result of legal expenses incurred from the litigation settlement related to one of the Bancorp's BOLI policies during the third quarter of 2010. The provision for unfunded commitments and letters of credit was a benefit of \$46 million in 2011 compared to a benefit of \$24 million during 2010. The benefit recorded in each period reflects lower estimates of inherent losses resulting from a decrease in delinquent loans as credit trends improved during 2011. The \$20 million increase in the other caption was primarily the result of \$27 million in expenses on two cash flow hedge transactions that were terminated during the third

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quarter of 2011 and \$14 million of expenses related to an increase in litigation reserves associated with bankcard association membership during the fourth quarter of 2011 partially offset by an \$8 million gain on the extinguishment of long term debt during 2011 compared to \$17 million of losses on the extinguishment of long term debt during 2010.

TSA related expenses decreased to approximately \$21 million in 2011 from \$49 million in 2010 due to Vantiv Holding's transition to their own supporting systems.

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 62.3% for 2011 compared to 60.7% in 2010.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
***Applicable Income Taxes***

The Bancorp's income (loss) before income taxes, applicable income tax expense (benefit) and effective tax rate for each of the periods indicated are shown in Table 12. 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 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 effective tax rate for the year ended December 31, 2011 was primarily impacted by \$135 million in tax credits and \$26 million of non-cash charges relating to previously recognized tax benefits associated with stock-based compensation that will not be realized. The effective tax rate for the year ended December 31, 2010 was primarily impacted by \$133 million in tax credits, a \$26 million reduction in income tax expense resulting from the settlement of certain uncertain tax positions with the IRS and \$25 million of non-cash charges relating to previously recognized tax benefits associated with stock-based compensation that will not be realized. See Note 20 of the Notes to Consolidated Financial Statements for further information on income taxes.

***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 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 years ended December 31, 2011 and 2010, the total tax impact for non-deductible compensation was \$2 million and \$6 million, respectively.

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

**TABLE 12: APPLICABLE INCOME TAXES**

For the years ended December 31 (\$ in millions)	2011	2010	2009	2008	2007
Income (loss) before income taxes	\$ 1,831	940	767	(2,664)	1,537
Applicable income tax expense (benefit)	533	187	30	(551)	461
Effective tax rate	29.1 %	19.8	3.9	20.7	30.0

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**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 30 of the Notes to 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.

On June 30, 2009, the Bancorp completed the sale of the processing business, which represented the sale of a majority interest in the Bancorp's merchant acquiring and financial institutions processing businesses. Financial data for the merchant acquiring and financial institutions processing businesses was originally reported in the former Processing Solutions segment through June 30, 2009. As a result of the sale, the Bancorp no longer presents Processing Solutions as a segment and therefore, historical financial information for the merchant acquiring and financial institutions processing businesses has been reclassified under General Corporate and Other for all periods presented. Interchange revenue previously recorded in the Processing Solutions segment and associated with cards currently included in Branch Banking is now included in the Branch Banking segment for all periods presented. Additionally, the Bancorp retained its retail credit card and commercial multi-card service businesses, which were also originally reported in the former Processing Solutions segment through June 30, 2009, and are included in the Branch Banking and Commercial Banking segments, respectively, for all periods presented. Revenue from the remaining ownership interest in the Processing Business is recorded in General Corporate and Other as noninterest income.

The Bancorp manages interest rate risk centrally at the corporate level and employs a FTP methodology at the business segment level. This methodology insulates the business segments from interest rate volatility, enabling them to focus on serving customers through loan originations and deposit taking. The FTP system assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on expected duration and the LIBOR swap curve. Matching duration allocates interest income and interest expense to each segment

so its resulting net interest income is insulated from interest rate risk. In a rising rate environment, the Bancorp benefits from the widening spread between deposit costs and wholesale funding costs. However, the Bancorp's FTP system credits this benefit to deposit-providing businesses, such as Branch Banking and Investment Advisors, on a duration-adjusted basis. The net impact of the FTP methodology is captured in General Corporate and Other.

The Bancorp adjusts the FTP charge and credit rates as dictated by changes in interest rates for various interest-earning assets and liabilities. The credit rate provided for DDAs is reviewed annually based upon the account type, its estimated duration and the corresponding fed funds, LIBOR or swap rate. The credit rates for DDAs were reset January 1, 2011 to reflect the current market rates. These rates were significantly lower than those in place during 2010, thus net interest income for deposit providing businesses was negatively impacted during 2011.

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 13: BUSINESS SEGMENT NET INCOME AVAILABLE TO COMMON SHAREHOLDERS**

For the years ended December 31

(\$ in millions)	2011	2010	2009
<b>Income Statement Data</b>			
Commercial Banking	\$ 441	178	(101)
Branch Banking	186	185	327
Consumer Lending	56	(26)	21
Investment Advisors	24	29	53

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General Corporate & Other	591	387	437
Net income	1,298	753	737
Less: Net income attributable to noncontrolling interest	1	-	-
Net income attributable to Bancorp	1,297	753	737
Dividends on preferred stock	203	250	226
Net income available to common shareholders	\$ 1,094	503	511

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**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 14: COMMERCIAL BANKING**

For the years ended December 31 (\$ in millions)	2011	2010	2009
<b>Income Statement Data</b>			
Net interest income (FTE) <sup>(a)</sup>	\$ 1,374	1,545	1,383
Provision for loan and lease losses	490	1,159	1,360
Noninterest income:			
Corporate banking revenue	332	346	353
Service charges on deposits	207	199	196
Other noninterest income	102	90	60
Noninterest expense:			
Salaries, incentives and benefits	240	214	192
Other noninterest expense	833	757	768
Income (loss) before taxes	452	50	(328)
Applicable income tax expense (benefit) <sup>(b)</sup>	11	(128)	(227)
Net income (loss)	\$ 441	178	(101)
<b>Average Balance Sheet Data</b>			
Commercial loans	\$ 38,384	38,304	41,341
Demand deposits	13,130	10,872	8,581
Interest checking	7,901	8,432	6,018
Savings and money market	2,776	2,823	2,457
Certificates over \$100,000	1,778	3,014	4,376
Foreign office deposits	1,581	2,017	1,275

(a) Includes FTE adjustments of \$17, \$14, and \$13 for the years ended December 31, 2011, 2010, and 2009, respectively.

(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.

**Comparison of 2011 with 2010**

Net income was \$441 million for the year ended December 31, 2011, compared to net income of \$178 million for the year ended December 31, 2010. The increase in net income was primarily driven by a decrease in the provision for loan and lease losses partially offset by lower net interest income and higher noninterest expense.

Net interest income decreased \$171 million primarily due to declines in the FTP credits for DDAs and decreases in interest income. The decrease in interest income was driven primarily by a decline in yields of 17 bps on average loans. Provision for loan and lease losses decreased \$669 million. Net charge-offs as a percent of average loans and leases decreased to 128 bps for 2011 compared to 302 bps for 2010 largely due net charge-offs on commercial loans moved to held for sale during the third quarter of 2010 and as a result of improved credit trends across all commercial loan types.

Noninterest income was relatively flat from 2010 to 2011, as increases in other noninterest income and service charges on deposits were offset by a decrease in corporate banking revenue. The increase in other noninterest income is primarily due to a \$15 million increase in income on private equity investments. Service charges on deposits increased from 2010 primarily due to a decrease in earnings credits paid on customer balances. The decrease in corporate banking revenue was primarily driven by decreases in international income, institutional sales, and syndication fees partially offset by an increase in business lending fees.

Noninterest expense increased \$102 million from the prior year as a result of increases in salaries, incentives and benefits and other noninterest expense. The increase in salaries, incentives and benefits of \$26 million was primarily the result of increased incentive compensation due to improved production levels. FDIC insurance expense, which is recorded in other noninterest expense, increased

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\$14 million due to a change in the methodology in determining FDIC insurance premiums to one based on total assets less tangible equity as opposed to the previous method that was based on domestic deposits. The remaining increase in other noninterest expense was the result of higher corporate overhead allocations in 2011 compared to 2010.

Average commercial loans were flat compared to the prior year. Average commercial mortgage loans decreased \$1.0 billion as a result of tighter underwriting standards implemented in prior quarters in an effort to limit exposure to commercial real estate. Average commercial construction loans decreased \$1.2 billion due to runoff as management suspended new lending on non-owner occupied real estate in 2008. The decreases in average commercial mortgage and construction loans were offset by growth in average commercial and industrial loans, which increased \$2.5 billion as a result of an increase in new loan origination activity.

Average core deposits increased \$1.2 billion compared to 2010. The increase was primarily driven by strong growth in DDAs, which increased \$2.3 billion compared to the prior year. The increase in DDAs was partially offset by decreases in interest bearing deposits of \$1.0 billion as customers opted to maintain their balances in more liquid accounts due to interest rates remaining near historical lows.

### *Comparison of 2010 with 2009*

Commercial Banking realized net income of \$178 million in 2010 compared to a net loss of \$101 million in 2009. This improvement was primarily due to an increase in net interest income and a decrease in provision for loan and lease losses. Net interest income increased \$162 million primarily due to a mix shift from higher cost term deposits to lower cost deposit products. This improvement was partially offset by the negative impact to net interest income of a decrease in average commercial loans during 2010 and a decrease

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

of \$35 million in the accretion of discounts on loans associated with a previous acquisition.

Provision for loan and lease losses decreased \$201 million from 2009. Net charge-offs as a percent of average loans and leases decreased from 329 bps in 2009 to 302 bps in 2010 due to actions taken by the Bancorp to address problem loans which resulted in significant net charge-offs recorded in 2009.

Noninterest income increased \$26 million from 2009 primarily as a result of \$24 million increase in gains on private equity investments, included in other noninterest income, and a \$5 million increase in card and processing revenue partially offset by a \$7 million decrease in corporate banking revenue.

Noninterest expense increased \$11 million compared to 2009 as the increase in salaries, incentives and benefits was partially offset by the decrease in other noninterest expense. The decrease in other noninterest expense is due to a decrease in loan and lease expense as a result of lower loan demand during 2010, a decrease in collection related expenses and a decrease in FDIC expenses due to a special assessment in the second quarter of 2009.

Average commercial loans and leases decreased \$3.0 billion compared to the prior year due to lower customer demand for new originations, lower utilization rates on corporate lines and tighter underwriting standards. These impacts were partially offset by the consolidation of \$724 million of commercial and industrial loans on January 1, 2010, which had a remaining balance of \$372 million at December 31, 2010.

Average core deposits increased \$5.8 billion, or 32%, compared to 2009 due to the migration of higher priced certificates of deposit into transaction accounts, as well as the impact of historically low interest rates and excess customer liquidity.

**Branch Banking**

Branch Banking provides a full range of deposit and loan and lease products to individuals and small businesses through 1,316 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 15: BRANCH BANKING**

For the years ended December 31

(\$ in millions)	2011	2010	2009
<b>Income Statement Data</b>			
Net interest income	\$ 1,423	1,514	1,577
Provision for loan and lease losses	393	555	601
Noninterest income:			
Service charges on deposits	309	369	428
Card and processing revenue	305	298	268
Investment advisory revenue	117	106	84
Other noninterest income	106	112	122
Noninterest expense:			
Salaries, incentives and benefits	583	560	507
Net occupancy and equipment expense	235	223	217
Card and processing expense	114	105	70
Other noninterest expense	647	668	579
Income before taxes	288	288	505
Applicable income tax expense	102	103	178
Net income	\$ 186	185	327
<b>Average Balance Sheet Data</b>			
Consumer loans	\$ 14,151	13,125	13,278
Commercial loans	4,621	4,815	5,337
Demand deposits	8,408	7,006	6,363
Interest checking	8,086	7,462	7,469

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Savings and money market	<b>22,241</b>	19,963	17,010
Other time and certificates \$100,000 and over	<b>7,778</b>	12,712	16,995

***Comparison of 2011 with 2010***

Net income increased \$1 million compared to 2010, driven by a decline in the provision for loan and lease losses offset by a decrease in net interest income and noninterest income and an increase in noninterest expense. Net interest income decreased \$91 million compared to the prior year. The primary drivers of the decline include decreases in the FTP credits for DDAs, lower yields on average commercial and consumer loans, and a decline in average commercial loans. These decreases were partially offset by a favorable shift in the segment's deposit mix towards lower cost transaction deposits resulting in declines in interest expense of \$193 million compared to 2010, and an increase in average consumer loans.

Provision for loan and lease losses for 2011 decreased \$162 million compared to the prior year. The decline in the provision was the result of improved credit trends across all consumer and commercial loan types. Net charge-offs as a percent of average loans and leases decreased to 210 bps for 2011 compared to 313 bps for 2010. The decrease is the result of improved credit trends and tighter underwriting standards. In addition, the decrease is due to \$24 million in charge-offs taken on \$60 million of commercial loans which were sold or moved to held for sale during the third quarter of 2010.

Noninterest income decreased \$48 million compared to the prior year. The decrease was primarily driven by lower service charges on deposits, which declined \$60 million, primarily due to the implementation of Regulation E in the third quarter of 2010. The decrease was partially offset by increased card and processing revenue caused by higher debit and credit card transaction volumes. Growth in processing revenue was partially offset by the impact of the implementation of the Dodd-Frank Act's debit card interchange fee cap in the fourth quarter of 2011. Investment advisory revenue also increased due to improved market performance and sales force expansion.

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Noninterest expense increased \$23 million, primarily driven by increases in salaries, incentives and benefits expense and card and processing expense partially offset by a decline in other noninterest expense. Salaries, incentives and benefits expenses increased \$23 million due to an increase in base and incentive compensation driven by investments in the sales force, as well as additional branch personnel. Card and processing expense increased \$9 million due to increased costs associated with an increase in the redemption of points for debit and credit card rewards. Other noninterest expense declined \$21 million primarily due to a decrease in FDIC insurance expense.

Average consumer loans increased \$1.0 billion in 2011 primarily due to increases in average residential mortgage loans of \$1.5 billion due to management's decision in the third quarter of 2010 to retain certain mortgage loans. The increases in average residential mortgage loans was partially offset by decreases in average home equity loans of \$421 million due to decreased customer demand and continued tighter underwriting standards. Average commercial loans decreased \$194 million due to declines in commercial and industrial loans resulting from lower customer demand for new originations and continued tighter underwriting standards applied to both originations and renewals.

Average core deposits increased by \$120 million compared to the prior year as the growth in transaction accounts due to excess customer liquidity and historically low interest rates outpaced runoff of higher priced certificates of deposit.

***Comparison of 2010 with 2009***

Net income decreased \$142 million compared to 2009 driven by an increase in noninterest expense and a decrease in net interest income partially offset by a decrease in provision for loan and lease losses. Net interest income decreased \$63 million compared to 2009 as the impact of lower loan balances more than offset a favorable shift in the segment's deposit mix towards lower cost transaction deposits.

Provision for loan and lease losses decreased \$46 million from 2009. Net charge-offs as a percent of average loans and leases decreased from 326 bps in 2009 to 313 bps in 2010 primarily due to improved credit trends and tighter underwriting standards.

Noninterest income decreased \$17 million from 2009 primarily due to decreases in service charges on deposits, partially offset by increases in card and processing revenue and investment advisory revenue.

Noninterest expense increased \$183 million from 2009 due to additional personnel expenses, net occupancy and equipment expense, card and processing expense and other noninterest expense.

Average consumer loans decreased \$153 million primarily due to a decrease in home equity loans due to decreased demand and tighter underwriting standards. Average commercial loans decreased \$522 million due to lower customer demand for new originations, lower utilization rates on corporate lines and tighter underwriting standards.

Average core deposits were relatively flat compared to 2009 as runoff of higher priced consumer certificates of deposit, included in other time deposits, was replaced with growth in transaction accounts due to excess customer liquidity and low interest rates.

***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 loans to consumers through mortgage brokers and automobile dealers. The following table contains selected financial data for the Consumer Lending segment.

**TABLE 16: CONSUMER LENDING**

For the years ended December 31

(\$ in millions)	2011	2010	2009
<b>Income Statement Data</b>			
Net interest income	\$ 343	405	476
Provision for loan and lease losses	261	569	558

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Noninterest income:			
Mortgage banking net revenue	<b>585</b>	619	526
Other noninterest income	<b>45</b>	51	97
Noninterest expense:			
Salaries, incentives and benefits	<b>183</b>	194	181
Other noninterest expense	<b>443</b>	352	328
Income (loss) before taxes	<b>86</b>	(40)	32
Applicable income tax expense (benefit)	<b>30</b>	(14)	11
Net income (loss)	<b>\$ 56</b>	(26)	21
<b>Average Balance Sheet Data</b>			
Residential mortgage loans	<b>\$ 9,348</b>	9,384	10,650
Home equity	<b>730</b>	851	995
Automobile loans	<b>10,665</b>	9,713	8,024
Consumer leases	<b>158</b>	384	629

***Comparison of 2011 with 2010***

Net income was \$56 million in 2011 compared to a net loss of \$26 million in 2010. The increase was driven by a decline in the provision for loan and lease losses, partially offset by decreases in noninterest income and net interest income and an increase in noninterest expense. Net interest income decreased \$62 million due to a decline in average loan balances for residential mortgage, home equity, and consumer leases as well as lower yields on average residential mortgage and automobile loans, partially offset by favorable decreases in the FTP charge applied to the segment.

Provision for loan and lease losses decreased \$308 million compared to the prior year, as delinquency metrics and underlying loss trends improved across all consumer loan types. Additionally, 2010 included charge-offs of \$123 million on the sale of \$228 million of portfolio loans. Net charge-offs as a percent of average loans and leases decreased to 134 bps for 2011 compared to 305 bps for 2010.

Noninterest income decreased \$40 million primarily due to decreases in mortgage banking net revenue of \$34 million driven by decreases in revenue associated with residential mortgage

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origination activity. The decrease from 2010 was driven by declines in origination fees and gains on loan sales of \$78 million due to decreased margins and lower origination volumes, partially offset by an increase in net servicing revenue of \$44 million. Net servicing revenue increased due to positive net valuation adjustments on MSRs and free-standing derivatives used to economically hedge MSRs and an increase in servicing fees as a result of an increase in the size of the Bancorp's servicing portfolio.

Noninterest expense increased \$80 million driven in part by increased FDIC insurance expense, as the methodology used to determine FDIC insurance premiums changed in 2011 from one based on domestic deposits to one based on total assets less tangible equity. Additional changes were due to an increase of \$41 million in the provision for representation and warranty claims related to residential mortgage loans sold to third parties and an increase of \$21 million in losses on escrow advances to borrowers relating to bank owned residential mortgages. The increase in the provision for representation and warranty claims was due to an increase in resolved claims in 2011 compared to 2010.

Average consumer loans and leases increased \$558 million from the prior year. Average automobile loans increased \$952 million due to a strategic focus to increase automobile lending throughout 2010 and 2011 through consistent and competitive pricing, disciplined sales execution, and enhanced customer service with our dealership network. This increase was partially offset by declines across all other types of consumer loans. Average residential mortgage loans decreased \$36 million as a result of the lower origination volumes discussed previously. Average home equity loans decreased \$121 million due to continued runoff in the discontinued brokered home equity product. Average consumer leases decreased \$226 million due to runoff as the Bancorp discontinued this product in the fourth quarter of 2008.

***Comparison of 2010 with 2009***

Consumer Lending reported a net loss of \$26 million in 2010 compared to net income of \$21 million in 2009 due to a decrease in net interest income and an increase in noninterest expense partially offset by an increase in noninterest income. Net interest income decreased \$71 million from 2009 primarily due to a decrease in yields on average interest earning assets, which included the impact of a \$23 million decrease in the accretion of discounts on loans associated with a previous acquisition partially offset by a decrease in funding costs during 2010.

Provision for loan and lease losses increased \$11 million from 2009 as an increase in net charge-offs on residential mortgage loans was partially offset by decreased automobile loan and home equity net charge-offs. Net charge-offs as a percent of average loans and leases decreased from 307 bps in 2009 to 305 bps in 2010.

Noninterest income increased \$47 million, as the result of an increase in mortgage banking net revenue partially offset by a decrease in other noninterest income. The increase in mortgage banking net revenue was driven by increases in net valuation adjustments on MSRs and MSR derivatives and increases in servicing fees due to an increase in loans serviced for others. The decrease in other noninterest income was primarily due to decreases in securities gains related to mortgage servicing rights hedging activities.

Noninterest expense increased \$37 million due to increases in salaries, incentives and benefits due to the continued high levels of mortgage loan originations in 2010 and an increase in other noninterest expense as a result of an increase in the representation and warranty reserve partially offset by a decrease in loan and lease expense.

Average consumer loans were flat compared to 2009 as the increase in automobile loans was offset by decreases in all other consumer loan and lease products.

***Investment Advisors***

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

**TABLE 17: INVESTMENT ADVISORS**

For the years ended December 31 (\$ in millions)

	2011	2010	2009
<b>Income Statement Data</b>			
Net interest income	\$ 113	138	157
Provision for loan and lease losses	27	44	57
Noninterest income:			
Investment advisory revenue	364	346	315
Other noninterest income	9	10	21
Noninterest expense:			
Salaries, incentives and benefits	164	156	140
Other noninterest expense	257	249	214
Income before taxes	38	45	82
Applicable income tax expense	14	16	29
Net income	\$ 24	29	53
<b>Average Balance Sheet Data</b>			
Loans and leases	\$ 2,037	2,574	3,112
Core deposits	6,798	5,897	4,939

**Comparison of 2011 with 2010**

Net income decreased \$5 million compared to 2010 primarily due to a decline in net interest income and an increase in noninterest expense partially offset by a decrease in the provision for loan and lease losses and an increase in investment advisory revenue. Net interest income decreased \$25 million from 2010 due to a decline in average loan and lease balances as well as declines in yields of 29 bps on loans and leases.

Provision for loan and leases losses decreased \$17 million from the prior year. Net charge-offs as a percent of average loans and



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leases decreased to 132 bps compared to 171 bps for the prior year reflecting moderation of general economic conditions during 2011.

Noninterest income increased \$17 million compared to 2010 primarily due to increases in investment advisory revenue. The increase in investment advisory revenue was driven by an increase of \$10 million in Private Bank income due to market performance and an increase of \$7 million in securities and broker income due to continued expansion of the sales force and market performance.

Noninterest expense increased \$16 million compared to 2010 due to increases in salaries, incentives and benefit expense resulting from the expansion of the sales force and compensation related to improved performance in investment advisory revenue related fees.

Average loans and leases decreased \$537 million compared to the prior year. The decrease was primarily driven by declines in home equity loans of \$373 million due to tighter underwriting standards. Average core deposits increased \$901 million compared to 2010 due to growth in interest checking and foreign deposits as customers have opted to maintain excess funds in liquid transaction accounts as a result of interest rates remaining near historic lows.

***Comparison of 2010 with 2009***

Net income decreased \$24 million compared to 2009 as a decrease in net interest income and an increase in noninterest expense were partially offset by a decrease in provision for loan and lease losses and an increase in investment advisory revenue. Net interest income decreased \$19 million from 2009 due to a decrease in average loans and leases partially offset by an increase in the yield on interest earning assets.

Provision for loan and lease losses decreased \$13 million from 2009. Net charge-offs as a percent of average loans and leases decreased from 183 bps in 2009 to 171 bps in 2010 reflecting moderation of general economic conditions during 2010.

Noninterest income increased \$20 million compared to 2009 due to an increase in investment advisory revenue partially offset by a decrease in other noninterest income. Investment advisory revenue increased \$31 million compared to 2009 due to increases in securities and broker income, private client service income and institutional income.

Noninterest expense increased \$51 million compared to 2009 due to higher personnel expenses as a result of the expansion of the sales force and compensation related to improved performance in investment advisory revenue related fees and due to an increase in expenses associated with the revenue sharing agreement between Investment Advisors and Branch Banking.

Average loans and leases decreased \$538 million from 2009 primarily due to a decrease in commercial loans as a result of a decrease in demand and a decrease in line utilization rates among the Bancorp's high net worth customers due to excess liquidity. Average core deposits increased \$958 million compared to 2009 primarily due to growth in interest checking and foreign deposits.

***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.

***Comparison of 2011 with 2010***

Results for 2011 and 2010 were impacted by a benefit of \$748 million and \$789 million, respectively, due to reductions in the ALLL. The decrease in provision expense for both years was due to a decrease in nonperforming assets and improvement in delinquency metrics and underlying loss trends. Net interest income increased from \$16 million in 2010 to \$321 million for 2011 due to a benefit in the FTP rate. The change in net income compared to the prior year was impacted by a \$127 million benefit, net of expenses, from the settlement of litigation associated with one of the Bancorp's BOLI policies that was recorded in the third quarter of 2010. The results for 2011 were impacted by dividends on preferred stock of \$203 million compared to \$250 million in the prior year. 2011 results included \$153 million in preferred stock dividends as a result of the accelerated accretion of the remaining issuance discount on the Series F Preferred Stock that was repaid in the first quarter of 2011.

*Comparison of 2010 with 2009*

The results for 2010 were impacted by \$789 million in income due to a reduction in the ALLL during 2010 compared to \$967 million of provision expense recorded in excess of net charge-offs during 2009. The decrease in provision expense was due to a decrease in nonperforming assets and improvement in credit trends as general economic conditions began to show signs of moderation. The 2010 results were also impacted by \$152 million of noninterest income recognized from the settlement of litigation associated with one of the Bancorp's BOLI policies and \$25 million of noninterest expense from related legal fees associated with the settlement. The results for 2009 were primarily impacted by a \$1.8 billion gain resulting from the sale of the processing business. Results for 2009 also included a \$244 million gain on the sale of the Bancorp's Visa, Inc. Class B shares, a \$73 million benefit from the reversal of the Visa litigation reserve, an \$18 million benefit in noninterest income due to mark-to-market adjustments on warrants and put options related to the sale of the processing business and a \$106 million tax benefit as a result of the Bancorp's decision to surrender one of its BOLI policies. These benefits were partially offset by a \$54 million BOLI charge reflecting reserves recorded in the connection with the intent to surrender the policy. Additionally, the Bancorp recorded dividends on preferred stock of \$226 million during 2009 compared to \$250 million during 2010.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****FOURTH QUARTER REVIEW**

The Bancorp's 2011 fourth quarter net income available to common shareholders was \$305 million, or \$0.33 per diluted share, compared to net income available to common shareholders of \$373 million, or \$0.40 per diluted share, for the third quarter of 2011 and net income available to common shareholders of \$270 million, or \$0.33 per diluted share, for the fourth quarter of 2010. Fourth quarter 2011 earnings included a \$54 million charge to noninterest income related to changes in the fair value of a swap liability that the Bancorp entered into in conjunction with its sale of Visa, Inc Class B shares in 2009, a \$30 million decrease in debit interchange revenue due to changes in debit interchange regulations and \$10 million in positive valuation adjustments on puts and warrants associated with the sale of the processing business. Third quarter 2011 results included \$28 million of costs related to the termination of certain FHLB borrowings and hedging transactions and a \$17 million reduction in other noninterest income related to the valuation of a total return swap entered into as part of the sale of Visa, Inc. Class B shares. Fourth quarter 2010 earnings included the impact of a \$17 million charge related to the early extinguishment of \$1.0 billion in FHLB borrowings as well as \$21 million in net investment securities gains. Provision expense was \$55 million in the fourth quarter of 2011, down from \$87 million in the third quarter of 2011 and \$166 million in the fourth quarter of 2010. Both the sequential decrease and the decline from the fourth quarter of 2010 reflect improved credit trends, as evidenced by a decrease in net charge-offs and improvements in nonperforming assets and delinquent loans. The ALLL to loan and lease ratio was 2.78% as of December 31, 2011, compared to 3.08% as of September 30, 2011 and 3.88% as of December 31, 2010.

Fourth quarter 2011 net interest income of \$920 million increased \$18 million from the third quarter of 2011 and \$1 million from the same period a year ago. The increase from the third quarter of 2011 was driven by both a decline in interest expense and an increase in interest income. Interest expense declined \$16 million from the third quarter of 2011, driven by lower deposit costs, including the \$16 million impact of continued run-off of high-rate CDs and their replacement into lower yielding products. Interest income increased \$2 million from the third quarter of 2011 as an increase in average loans was partially offset by a decline in average securities and lower yields on average interest earning assets. Net interest income was flat in comparison to the fourth quarter of 2010, largely due to lower loan and investment securities yields partially offset by higher average loan balances, run-off in higher-priced CDs, and mix shift to lower cost deposit products.

Fourth quarter 2011 noninterest income of \$550 million decreased \$115 million compared to the third quarter of 2011 and \$106 million compared to the fourth quarter of 2010. The sequential decline was driven by a \$54 million reduction in income due to the increase in fair value of the liability related to the total return swap entered into as part of the 2009 sale of Visa, Inc. Class B shares, as well as a \$22 million decrease in mortgage banking net revenue. Compared to the fourth quarter of 2010, the decline was driven by decreases of \$31 million in other noninterest income, \$21 million in card and processing fees and \$16 million in securities gains, net. The fourth quarter of 2011 included a benefit of \$10 million in mark-to-market adjustments on warrants and put options related to the sale of the processing business, compared to a benefit of \$3 million in the third quarter of 2011 and the fourth quarter of 2010.

Mortgage banking net revenue was \$156 million in the fourth quarter of 2011, compared to \$178 million in the third quarter of 2011 and \$149 million in the fourth quarter of 2010. Fourth quarter originations were \$7.1 billion, compared to \$4.5 billion in the previous quarter and \$7.4 billion in the same quarter last year. These originations resulted in gains on mortgage loan sales of \$152 million in the fourth quarter of 2011, compared to \$119 million in the third quarter of 2011 and \$158 million in the fourth quarter of 2010. Gain

on sale margins declined from third quarter of 2011 and fourth quarter of 2010 levels, due to increased competition for originations as volumes slowed during the quarter. Also impacting mortgage banking net revenue was net valuation adjustments on MSR and MSR derivatives. In the fourth quarter of 2011 and 2010, losses on the Bancorp's free-standing MSR derivatives exceeded impairment reversal recorded against the hedged MSRs. These factors led to a net loss of \$54 million on the net valuation adjustments on MSRs in the fourth quarter of 2011, compared to a net zero and a net loss of \$67 million in the third quarter of 2011 and the fourth quarter of 2010, respectively. A net loss on non-qualifying hedges on MSR of \$3 million in the fourth quarter of 2011 was included in noninterest income within the Consolidated Statements of Income, but shown separate from mortgage banking net revenue. Net gains on non-qualifying hedges on mortgage servicing rights were \$6 million and \$14 million in the third quarter of 2011 and the fourth quarter of 2010, respectively.

Service charges on deposits of \$136 million increased one percent sequentially and decreased three percent compared to the fourth quarter of 2010. Retail service charges were flat sequentially and declined by seven percent from a year ago, largely driven by the impact of Regulation E. Commercial service charges increased two percent sequentially due to reductions in earnings credit rates and account growth and were flat when compared to the same quarter last year.

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Corporate banking revenue of \$82 million decreased \$5 million from the previous quarter and decreased \$21 million from the fourth quarter of 2010. The sequential decline was primarily driven by lower foreign exchange, interest rate derivative, and lease remarketing fees. The year-over-year decline was driven by these factors as well as lower syndication fees and institutional sales revenue.

Investment advisory revenue of \$90 million decreased two percent sequentially and three percent from the fourth quarter of 2010. Sequential and year-over-year declines were driven by lower securities and brokerage revenue, institutional trust fees, and mutual fund fees partially offset by higher private client service revenue.

Card and processing revenue of \$60 million decreased \$18 million compared to the third quarter of 2011 and \$20 million from the fourth quarter of 2010. Both decreases were driven by the impact of the recently enacted debit interchange legislation partially offset by increased transaction volumes and mitigation activity in response to the debit interchange legislation.

The net gain on investment securities was \$5 million in the fourth quarter of 2011 compared to a net gain of \$26 million in the third quarter of 2011 and a net gain of \$21 million in the fourth quarter of 2010.

Noninterest expense of \$993 million increased \$47 million sequentially and increased \$6 million from the fourth quarter of 2010. Fourth quarter 2011 expenses included \$14 million of reserve related costs associated with bankcard association membership litigation and \$5 million in other litigation reserve additions. Third quarter 2011 expenses included \$28 million of costs related to the termination of certain FHLB borrowings and hedging transactions, while fourth quarter 2010 results included \$17 million of expenses related to the early termination of \$1.0 billion in FHLB borrowings. Excluding these items, noninterest expense increased six percent from the third quarter of 2011 and was flat compared with the fourth quarter of 2010, driven by increased mortgage fulfillment costs and \$6 million of pension settlements.

Net charge-offs totaled \$239 million in the fourth quarter of 2011, compared to \$262 million in the third quarter of 2011 and \$356 million in the fourth quarter of 2010. The decreases in net charge-offs from both periods reflects continued improvement in the credit quality of portfolio loans. Commercial net charge-offs were \$113 million in the fourth quarter of 2011, compared to \$136

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

million in the third quarter of 2011 and \$173 million in the fourth quarter of 2010. Consumer net charge-offs were \$126 million in the fourth quarter and third quarter of 2011 and \$183 million in the fourth quarter of 2010.

**COMPARISON OF THE YEAR ENDED 2010 WITH 2009**

Net income available to common shareholders for the year ended December 31, 2010 was \$503 million, or \$0.63 per diluted share, compared to net income available to common shareholders of \$511 million, or \$0.67 per diluted share, in 2009. Overall, \$152 million of noninterest income from the settlement of litigation associated with one of the Bancorp's BOLI policies as well as an increase in mortgage banking net revenue and a decrease in the provision for loan and lease losses of \$2.0 billion compared to 2009, were partially offset by decreases in noninterest income and card and processing revenue as well as \$110 million of noninterest expense from charges to representation and warranty reserves related to residential mortgage loans sold to third parties. Results for 2009 also included a \$106 million tax benefit as a result of the Bancorp's decision to surrender one of its BOLI policies and a \$55 million income tax benefit from an agreement with the IRS to settle all of the Bancorp's disputed leverage leases for all open years. These benefits were partially offset by a \$54 million BOLI charge reflecting reserves recorded in the connection with the intent to surrender the policy. While the Bancorp continued to be affected by rising unemployment rates, weakened housing markets, particularly in the upper Midwest and Florida, and a challenging credit environment, credit trends began to show signs of stabilization in late 2009, which led to the decrease in provision expense from \$3.5 billion at December 31, 2009 to \$1.5 billion at December 31, 2010.

Net interest income increased to \$3.6 billion, from \$3.4 billion in 2009. The primary reason for the seven percent increase in net interest income was a 39 bps increase in the net interest rate spread due to the runoff of higher priced term deposits in 2010 and the benefit of lower rates offered on new term deposits, as well as improved pricing on commercial loans. These benefits were partially offset by a decrease in the accretion of purchase accounting adjustments related to the 2008 acquisition of First Charter, which were \$68 million in 2010, compared to \$136 million in 2009. Net interest margin was 3.66% in 2010, an increase of 34 bps from 2009.

Noninterest income decreased 43% to \$2.7 billion in 2010 compared to \$4.8 billion in 2009, driven primarily by the sale of the processing business in the second quarter of 2009, which resulted in a gain of \$1.8 billion, as well as a \$244 million gain related to the sale of the Bancorp's Visa, Inc. Class B shares in 2009. Mortgage banking net revenue increased \$94 million as a result of strong net servicing revenue and higher margins on sold loans, partially offset by a decline in mortgage originations. Card and processing revenue decreased 49% due to the sale of the processing business in the second quarter of 2009. Service charges on deposits decreased \$58 million primarily due to the impact of new overdraft regulation and policies which resulted in a decrease in overdraft occurrences. Investment advisory revenue increased \$35 million as the result of improved market performance and sales production that drove an increase in brokerage activity and assets under care. Corporate banking revenue decreased two percent largely due to decreases in international income and lease remarketing fees, partially offset by growth in syndication and business lending fees.

Noninterest expense increased \$29 million, or one percent, compared to 2009. Noninterest expense in 2010 included \$25 million in legal fees associated with the settlement of claims with the insurance carrier on one of the Bancorp's BOLI policies while noninterest expense in 2009 included a \$73 million reduction in the Visa litigation reserve as well as a \$55 million FDIC special assessment charge. Total personnel costs increased \$94 million, or six percent in 2010 compared to 2009, due primarily to investments in the sales force in 2010. In addition, charges to representation and

warranty reserves related to residential mortgage loans sold to third-parties totaled \$110 million in 2010, compared to \$31 million in 2009 due to a higher volume of repurchase demands. Partially offsetting these negative impacts was a \$123 million decrease in the provision for unfunded commitments and letters of credit due to lower estimates of inherent losses as the result of a decrease in delinquent loans driven by moderation in economic conditions during 2010. In addition, card and processing expense decreased \$85 million compared to 2009 due to the sale of the processing business in the second quarter of 2009. Noninterest expense in 2010 and 2009 included \$242 million and \$269 million, respectively, of FDIC insurance and other taxes.

Net charge-offs as a percent of average loans and leases decreased to 3.02% in 2010 compared to 3.20% in 2009. In the third quarter of 2010, the Bancorp took significant actions to reduce credit risk. Residential mortgage loans in the Bancorp's portfolio with a carrying value of \$228 million were sold for \$105 million, generating \$123 million in net charge-offs. Additionally, commercial loans with a carrying value prior to transfer of \$961 million were transferred to held-for-sale, generating \$387 million in net charge-offs. Including the impact of these actions, nonperforming assets as a percent of loans, leases and other assets, including other real estate owned (excluding nonaccrual loans held for sale) decreased to 2.79% at December 31, 2010, from 4.22% at December 31, 2009.

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The Bancorp took a number of actions to strengthen its capital position in 2009. On June 4, 2009, the Bancorp completed an at-the-market offering resulting in the sale of \$1 billion of its common shares at an average share price of \$6.33. In addition, on June 17, 2009, the Bancorp completed its offer to exchange shares of its common stock and cash for shares of its Series G convertible preferred stock. As a result, the Bancorp recognized an increase in net income available to common shareholders of \$35 million based upon the difference in carrying value of the Series G preferred shares and the fair value of the common shares and cash issued.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**BALANCE SHEET ANALYSIS***Loans and Leases*

The Bancorp classifies its loans and leases based upon the primary purpose of the loan. Table 18 summarizes end of period loans and leases, including loans held for sale and Table 19 summarizes average total loans and leases, including loans held for sale.

**TABLE 18: COMPONENTS OF TOTAL LOANS AND LEASES (INCLUDES HELD FOR SALE)**

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Commercial:					
Commercial and industrial loans	\$ 30,828	27,275	25,687	29,220	26,079
Commercial mortgage loans	10,214	10,992	11,936	12,731	11,967
Commercial construction loans	1,037	2,111	3,871	5,335	5,561
Commercial leases	3,531	3,378	3,535	3,666	3,737
Subtotal commercial	45,610	43,756	45,029	50,952	47,344
Consumer:					
Residential mortgage loans	13,474	10,857	9,846	10,292	11,433
Home equity	10,719	11,513	12,174	12,752	11,874
Automobile loans	11,827	10,983	8,995	8,594	11,183
Credit card	1,978	1,896	1,990	1,811	1,591
Other consumer loans and leases	364	702	812	1,194	1,157
Subtotal consumer	38,362	35,951	33,817	34,643	37,238
Total loans and leases	\$ 83,972	79,707	78,846	85,595	84,582
Total portfolio loans and leases (excludes loans held for sale)	\$ 81,018	77,491	76,779	84,143	80,253

Total loans and leases, including loans held for sale, increased \$4.3 billion, or five percent, from December 31, 2010. The increase in total loans and leases from December 31, 2010 was the result of a \$1.9 billion, or four percent, increase in commercial loans and a \$2.4 billion, or seven percent, increase in consumer loans.

The increase of \$1.9 billion in commercial loans and leases from 2010 was primarily due to an increase in commercial and industrial loans partially offset by a decrease in commercial mortgage and commercial construction loans. Commercial and industrial loans increased \$3.6 billion, or 13%, due to an increase in new loan origination activity. Commercial mortgage loans decreased \$778 million, or seven percent, and commercial construction loans decreased \$1.1 billion, or 51%, from December 31, 2010 as the Bancorp experienced continued run-off in these loan categories. The run-off activity was the result of management's decision to suspend new homebuilder and developer lending in 2007 and non-owner occupied real estate lending in 2008 combined with weak customer demand for owner-occupied commercial mortgage loans and tighter underwriting standards.

Total consumer loans and leases increased \$2.4 billion from 2010 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. The increase of \$2.6 billion, or 24%, in residential mortgage loans from December 31, 2010, was driven by a \$1.7 billion increase in portfolio loans due to management's decision in the third quarter of 2010 and throughout 2011 to retain certain shorter term residential mortgage loans originated through the Bancorp's retail branches. Additionally, residential mortgage loans held for sale increased \$901 million from December 31, 2010 due to an increase in refinancing activity in the fourth quarter of 2011 and the timing of delivery of loans. Automobile loans increased \$844 million, or eight percent, compared to December 31, 2010, 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 \$794 million, or seven percent, due to tighter underwriting standards implemented in 2010 and 2011 and decreased customer demand. Other consumer loans and leases, primarily made up of automobile leases as well as student loans designated as held for sale, decreased \$338

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million, or 48%, compared to December 31, 2010 due to a decline in new originations driven by tighter underwriting standards implemented in 2010 and 2011 and runoff due to the Bancorp's decision to discontinue auto lease originations.

**TABLE 19: COMPONENTS OF AVERAGE TOTAL LOANS AND LEASES (INCLUDES HELD FOR SALE)**

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Commercial:					
Commercial and industrial loans	\$ 28,546	26,334	27,556	28,426	22,351
Commercial mortgage loans	10,447	11,585	12,511	12,776	11,078
Commercial construction loans	1,740	3,066	4,638	5,846	5,661
Commercial leases	3,341	3,343	3,543	3,680	3,683
Subtotal commercial	44,074	44,328	48,248	50,728	42,773
Consumer:					
Residential mortgage loans	11,318	9,868	10,886	10,993	10,489
Home equity	11,077	11,996	12,534	12,269	11,887
Automobile loans	11,352	10,427	8,807	8,925	10,704
Credit card	1,864	1,870	1,907	1,708	1,276
Other consumer loans and leases	529	743	1,009	1,212	1,219
Subtotal consumer	36,140	34,904	35,143	35,107	35,575
Total average loans and leases	\$ 80,214	79,232	83,391	85,835	78,348
Total portfolio loans and leases (excludes loans held for sale)	\$ 78,533	77,045	80,681	83,895	76,033

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Average total commercial loans and leases decreased \$254 million, or one percent, compared to December 31, 2010. The decrease in average total commercial loans and leases was driven by a decrease in average commercial mortgage loans and average commercial construction loans, partially offset by an increase in average commercial and industrial loans. Average commercial mortgage loans decreased \$1.1 billion, or 10%, average commercial construction loans decreased \$1.3 billion, or 43%, and average commercial and industrial loans increased \$2.2 billion, or eight percent due to the reasons previously discussed.

Average total consumer loans and leases increased \$1.2 billion, or four percent, compared to December 31, 2010. The increase in average total consumer loans and leases from December 2010 was driven by an increase in average residential mortgage loans and average automobile loans, partially offset by a decrease in home equity loans and other consumer loans and leases. Average residential mortgage loans increased \$1.5 billion, or 15%, average automobile loan balances increased \$925 million, or nine percent, average home equity loans decreased \$919 million, or eight percent, and average other consumer loans and leases decreased \$214 million, or 29%, from December 31, 2010 due to the reasons previously discussed.

**Investment Securities**

The Bancorp uses investment securities as a means of managing interest rate risk, providing liquidity support and providing collateral for pledging purposes. As of December 31, 2011, total investment securities were \$15.9 billion compared to \$16.1 billion at December 31, 2010. See Note 1 of the Notes to Consolidated Financial Statements for the Bancorp's methodology for both classifying investment securities and management's evaluation of securities in an unrealized loss position for OTTI.

At December 31, 2011, the Bancorp's investment portfolio consisted primarily of AAA-rated available-for-sale securities. During the years ended December 31, 2011 and 2010, the Bancorp recognized \$19 million and \$3 million of OTTI on its investments securities portfolio, respectively. During the year ended December 31, 2009, OTTI was immaterial to the Consolidated Financial Statements.

The Bancorp did not hold asset-backed securities backed by subprime mortgage loans in its investment portfolio. Additionally, there was approximately \$122 million of securities classified as below investment grade as of December 31, 2011, compared to \$137 million as of December 31, 2010.

**TABLE 20: COMPONENTS OF INVESTMENT SECURITIES**

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Available-for-sale and other: (amortized cost basis)					
U.S. Treasury and Government agencies	\$ 171	225	464	186	3
U.S. Government sponsored agencies	1,782	1,564	2,143	1,651	160
Obligations of states and political subdivisions	96	170	240	323	490
Agency mortgage-backed securities	9,743	10,570	11,074	8,529	8,738
Other bonds, notes and debentures <sup>(a)</sup>	1,792	1,338	2,541	613	385
Other securities <sup>(b)</sup>	1,030	1,052	1,417	1,248	1,045
Total available-for-sale and other securities	\$ 14,614	14,919	17,879	12,550	10,821
Held-to-maturity: (amortized cost basis)					
Obligations of states and political subdivisions	\$ 320	348	350	355	351
Other bonds, notes and debentures	2	5	5	5	4
Total held-to-maturity	\$ 322	353	355	360	355
Trading: (fair value)					
Variable rate demand notes	\$	106	235	1,140	
Other securities	177	188	120	51	171
Total trading	\$ 177	294	355	1,191	171

(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.

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As of December 31, 2011, available-for-sale securities on an amortized cost basis decreased \$305 million, or two percent, from December 31, 2010 due to a decrease in agency mortgage-backed securities, partially offset by an increase in U.S. government sponsored agencies securities and an increase in other bonds, notes and debentures. Agency mortgage-backed securities decreased from 2010 as excess cash was invested in other short-term investments. The increase in both U.S. government sponsored agencies securities and other bonds, notes and debentures was primarily driven by increased purchases of these instruments.

At December 31, 2011 and 2010, available-for-sale securities were 14% of total interest-earning assets compared to 15% at December 31, 2010. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 3.6 years at December 31, 2011, compared to 4.4 years at December 31, 2010.

In addition, at December 31, 2011, the available-for-sale securities portfolio had a weighted-average yield of 3.66%, compared to 4.24% at December 31, 2010.

Information presented in Table 21 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 \$748 million at December 31, 2011, compared to \$495 million at December 31, 2010. The increase in net unrealized gains was due to the Federal Reserve's low interest rates causing an increase in investor demand for higher-coupon securities that offer a higher yield.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TABLE 21: CHARACTERISTICS OF AVAILABLE-FOR-SALE AND OTHER SECURITIES

			Weighted-Average	Weighted-Average
As of December 31, 2011 (\$ in millions)	Amortized Cost	Fair Value	Life (in years)	Yield
U.S. Treasury and Government agencies:				
Average life of one year or less	\$170	170	0.3	0.71 %
Average life 5 - 10 years	1	1	7.1	1.48
Total	171	171	0.4	0.71
U.S. Government sponsored agencies:				
Average life of one year or less	50	51	0.7	1.54
Average life 1 - 5 years	1,107	1,208	4.2	3.35
Average life 5 - 10 years	625	703	5.5	3.90
Total	1,782	1,962	4.6	3.49
Obligations of states and political subdivisions: <sup>(a)</sup>				
Average life of one year or less	6	8	0.2	8.26
Average life 1 - 5 years	53	53	3.2	0.13
Average life 5 - 10 years	30	33	8.5	6.04
Average life greater than 10 years	7	7	10.7	4.39
Total	96	101	5.2	2.82
Agency mortgage-backed securities:				
Average life of one year or less	645	665	0.7	4.59
Average life 1 - 5 years	8,759	9,254	3.3	3.91
Average life 5 - 10 years	339	365	7.1	3.97
Total	9,743	10,284	3.3	3.96
Other bonds, notes and debentures:				
Average life of one year or less	164	167	0.5	2.46
Average life 1 - 5 years	1,241	1,251	3.4	2.22
Average life 5 - 10 years	297	304	6.1	2.61
Average life greater than 10 years	90	90	28.9	6.50
Total	1,792	1,812	4.8	2.52
Other securities	1,030	1,032		
Total available-for-sale and other securities	\$14,614	15,362	3.6	3.66 %

(a) Taxable-equivalent yield adjustments included in the above table are 2.86%, 0.04%, 2.09%, 1.52% and 0.97% 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.

Trading securities decreased \$117 million, or 40%, compared to December 31, 2010. The decrease from December 31, 2010 was driven primarily by the sale of VRDNs during the first quarter of 2011, which were held by the Bancorp in its trading securities portfolio. These securities were purchased from the market through FTS who was also the remarketing agent. Rates on these securities declined in 2010 and into 2011 and, as a result, the Bancorp continued to sell the VRDNs, replacing them with higher-yielding agency mortgage-backed securities classified as available-for-sale. For more information on VRDNs, see Note 17 of the Notes to Consolidated Financial Statements.

### Deposits

The Bancorp's deposit balances represent an important source of funding and revenue growth opportunity. The Bancorp continues to focus on core deposit growth in its retail and commercial franchises by improving customer satisfaction, building full relationships and offering competitive rates. Core deposits represented 71% and 70% of the Bancorp's asset funding base at December 31, 2011 and 2010, respectively.

TABLE 22: DEPOSITS

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Demand	\$ 27,600	21,413	19,411	15,287	14,404
Interest checking	20,392	18,560	19,935	14,222	15,254

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Savings	<b>21,756</b>	20,903	17,898	16,063	15,635
Money market	<b>4,989</b>	5,035	4,431	4,689	6,521
Foreign office	<b>3,250</b>	3,721	2,454	2,144	2,572
Transaction deposits	<b>77,987</b>	69,632	64,129	52,405	54,386
Other time	<b>4,638</b>	7,728	12,466	14,350	11,440
Core deposits	<b>82,625</b>	77,360	76,595	66,755	65,826
Certificates \$100,000 and over	<b>3,039</b>	4,287	7,700	11,851	6,738
Other	<b>46</b>	1	10	7	2,881
Total deposits	<b>\$ 85,710</b>	81,648	84,305	78,613	75,445

Core deposits increased \$5.3 billion, or seven percent, compared to December 31, 2010, driven by an increase of \$8.4 billion, or 12%, in transaction deposits, partially offset by a decrease of \$3.1 billion, or 40%, in other time deposits. Transaction deposits increased due to an increase in demand deposits, interest checking deposits, and savings deposits,

partially offset by a decrease in foreign office deposits. Demand deposits increased \$6.2 billion, or 29%, 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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

current market conditions. Interest checking deposits increased \$1.8 billion, or 10%, primarily due to an increase in new accounts from the Preferred Checking Program introduced in February 2011 and growth from maturing certificates of deposits. Savings deposits increased \$853 million, or four percent, primarily due to growth from maturing certificates of deposits and the impact of the relationship savings program. Other time deposits decreased \$3.1 billion, or 40%, compared to December 31, 2010, primarily as a result of continued runoff of certificates of deposits due to the low interest rate environment, as customers have opted to maintain balances in more liquid transaction accounts.

Included in core deposits are foreign office deposits, which are primarily Eurodollar sweep accounts from the

Bancorp's commercial customers. These accounts bear interest rates at slightly higher than money market accounts and unlike repurchase agreements the Bancorp does not have to pledge collateral. Foreign office deposits decreased \$471 million, or 13%, from December 31, 2010 due to a reduction in sweep activity from commercial demand deposits.

The Bancorp uses certificates of deposit \$100,000 and over, as a method to fund earning asset growth. At December 31, 2011, certificates \$100,000 and over decreased \$1.2 billion, or 29%, compared to December 31, 2010 due to continued runoff from the low rate environment.

The following table presents average deposits for the twelve months ending December 31:

**TABLE 23: AVERAGE DEPOSITS**

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Demand	\$ 23,389	19,669	16,862	14,017	13,261
Interest checking	18,707	18,218	15,070	14,191	14,820
Savings	21,652	19,612	16,875	16,192	14,836
Money market	5,154	4,808	4,320	6,127	6,308
Foreign office	3,490	3,355	2,108	2,153	1,762
Transaction deposits	72,392	65,662	55,235	52,680	50,987
Other time	6,260	10,526	14,103	11,135	10,778
Core deposits	78,652	76,188	69,338	63,815	61,765
Certificates \$100,000 and over	3,656	6,083	10,367	9,531	6,466
Other	7	6	157	2,067	1,393
Total average deposits	\$ 82,315	82,277	79,862	75,413	69,624

On an average basis, core deposits increased \$2.5 billion, or three percent, compared to December 31, 2010 due to increases in demand deposits of \$3.7 billion, interest checking of \$489 million and savings deposits of \$2.0 billion, partially offset by a decrease in other time deposits of \$4.3 billion.

This activity was the result of the migration of other time deposits and certificates of deposits greater than \$100,000 into transaction accounts, due to the impact of historically low rates and excess customer liquidity and the reasons discussed above.

### ***Borrowings***

Total borrowings increased \$1.9 billion, or 16%, from December 31, 2010 due primarily to an increase in other

short-term borrowings. As of December 31, 2011, total borrowings as a percentage of interest-bearing liabilities was 19% compared to 16% at December 31, 2010.

**TABLE 24: BORROWINGS**

As of December 31 (\$ in millions)	2011	2010	2009	2008	2009
Federal funds purchased	\$ 346	279	182	287	4,427
Other short-term borrowings	3,239	1,574	1,415	9,959	4,747
Long-term debt	9,682	9,558	10,507	13,585	12,857
Total borrowings	\$ 13,267	11,411	12,104	23,831	22,031

Other short-term borrowings increased \$1.7 billion, or 106%, from December 31, 2010 driven by an increase of \$1.5 billion in short-term FHLB borrowings due to the runoff of certificates of deposits greater than \$100,000. Long-term debt increased \$124 million, or one percent, from December 31, 2010 due to the issuance of \$1.0 billion in senior notes during the first quarter of 2011 and a \$375 million increase in structured repurchase agreements. The increase in long-term debt was partially offset by the redemption of \$519 million of certain trust preferred securities during 2011, the redemption of a \$500 million long-term FHLB advance during the third quarter

of 2011, and pay-downs related to previously consummated home equity and auto loan securitizations. In addition the Bancorp purchased \$85 million of outstanding home equity securitization debt from the market in 2011 which was accounted for as an extinguishment of debt. For further information on the Bancorp's previous securitization activity refer to Note 11 of the Notes to the Consolidated Financial Statements. During 2011, the Bancorp recorded an \$8 million gain on extinguishment of long-term debt within other noninterest expense in the Consolidated Statements of Income.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**TABLE 25: AVERAGE BORROWINGS**

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Federal funds purchased	\$ 345	291	517	2,975	3,646
Other short-term borrowings	2,777	1,635	6,463	7,785	3,244
Long-term debt	10,154	10,902	11,035	13,903	12,505
Total average borrowings	\$ 13,276	12,828	18,015	24,663	19,395

Average total borrowings increased \$448 million, or three percent, compared to December 31, 2010, primarily due to an increase in average other short-term borrowings, partially offset by a decrease in average long-term debt. Average other short-term borrowings increased \$1.1 billion, or 70%, due to the previously mentioned increase in short-term FHLB borrowings. Average long-term debt decreased \$748 million, or seven percent, due to a decrease of \$1.0 billion in average long-term FHLB borrowings.

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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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RISK MANAGEMENT**

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;



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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 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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

approved by the Risk and Compliance Committee of the Board of Directors.

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

**CREDIT RISK MANAGEMENT**

The objective of the Bancorp's credit risk management strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual

customer default. The Bancorp's credit risk management strategy is based on three core principles: conservatism, diversification and monitoring. The Bancorp believes that effective credit risk management begins with conservative lending practices. These practices include conservative exposure and counterparty limits and conservative underwriting, documentation and collection standards. The Bancorp's credit risk management strategy also emphasizes diversification on a geographic, industry and customer level as well as regular credit examinations and timely management reviews of large credit exposures and credits experiencing deterioration of credit quality. Credit officers with the authority to extend credit are delegated specific authority amounts, the utilization of which is closely monitored. Underwriting activities are centrally managed, and ERM manages the policy and the authority delegation process directly. The Credit Risk Review function provides objective assessments of the quality of underwriting and documentation, the accuracy of risk grades and the charge-off, nonaccrual and reserve analysis

process. The Bancorp's credit review process and overall assessment of the adequacy of the allowance for credit losses is based on quarterly assessments of the probable estimated losses inherent in the loan and lease portfolio. The Bancorp uses these assessments to promptly identify potential problem loans or leases within the portfolio, maintain an adequate reserve and take any necessary charge-offs. Fifth Third defines potential problem loans as those rated substandard that do not meet the definition of a nonperforming asset or a restructured loan. See Note 6 of the Notes to the 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 as of December 31:

**TABLE 26: POTENTIAL PROBLEM LOANS**

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

**TABLE 27: POTENTIAL PROBLEM LOANS**

<b>As of December 31, 2010 (\$ in millions)</b>	<b>Carrying Value</b>	<b>Unpaid Principal</b>	<b>Exposure</b>
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	<b>Balance</b>		
Commercial and industrial	\$ 1,984	1,985	2,687
Commercial mortgage	1,557	1,559	1,570
Commercial construction	372	372	442
Commercial leases	30	30	30
Total	\$ 3,943	3,946	4,729

In addition to the individual review of larger commercial loans that exhibit probable or observed credit weaknesses, the commercial credit review process includes the use of two risk grading systems. The risk grading system currently utilized for reserve analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system that provides for thirteen probabilities of default grade categories and an additional six grade categories for estimating losses given an event of default. The probability of default and loss given default evaluations are not separated in the ten-grade risk rating system. The Bancorp has completed significant validation and testing of the dual risk rating system and will make a decision on the implementation of the dual risk rating model for purposes of determining the Bancorp's ALLL once the FASB has issued a final standard regarding previously proposed methodology changes to the determination of credit impairment as outlined in the Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities Exposure Draft and Supplementary Document dated May 2010 and January 2011, respectively. Scoring systems, various analytical tools

and delinquency monitoring are used to assess the credit risk in the Bancorp's homogenous consumer and small business loan portfolios.

### ***Overview***

General economic conditions started to improve during 2010 and were mixed in 2011. 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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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 2010 and 2011, 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. In the financial services industry, there has been heightened focus on foreclosure activity and processes. Fifth Third actively works with borrowers experiencing difficulties and has regularly modified or provided forbearance to borrowers where a workable solution could be found. Foreclosure is a last resort, and the Bancorp undertakes foreclosures only when it believes they are necessary and appropriate and are careful to ensure that customer and loan data are accurate. Reviews of the Bancorp's foreclosure process and procedures conducted last year 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 completed and the Bancorp may determine to amend its processes and procedures as a result of these reviews. While any impact to the Bancorp that ultimately results from continued reviews cannot yet be determined, management currently believes that such impact will not materially adversely affect the Bancorp's results of operations, liquidity or capital resources. Additionally, banking regulatory agencies and other federal and state governmental authorities have continued to review the foreclosure process of mortgage servicers such as Fifth Third beyond the initial examinations of the largest mortgage servicers they conducted last year and earlier this year. These ongoing reviews could subject Fifth Third and other mortgage servicers to sanctions, civil money penalties and/or requirements to undertake remedial measures.

**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 28: COMMERCIAL MORTGAGE LOANS OUTSTANDING BY LTV, LOANS GREATER THAN \$1 MILLION**

As of December 31, 2011 (\$ in millions)	LTV > 100%	LTV 80-100%	LTV £ 80%
Commercial mortgage owner-occupied loans	\$ 528	419	2,353
Commercial mortgage nonowner-occupied loans	684	734	2,164
Total	\$ 1,212	1,153	4,517



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**TABLE 29: COMMERCIAL LOAN AND LEASE PORTFOLIO (EXCLUDING LOANS HELD FOR SALE)**

As of December 31 (\$ in millions)	2011			2010		
	Outstanding	Exposure	Nonaccrual	Outstanding	Exposure	Nonaccrual
By industry:						
Manufacturing	\$ 9,020	17,065	116	\$ 7,202	14,979	149
Real estate	6,274	7,060	299	8,295	9,532	378
Financial services and insurance	4,596	9,975	46	3,830	8,184	78
Business services	3,898	5,976	78	3,314	5,379	50
Wholesale trade	3,656	6,796	50	2,926	5,689	18
Healthcare	3,477	5,179	15	3,402	5,421	35
Retail trade	2,639	5,548	56	2,548	5,377	48
Transportation and warehousing	2,304	3,152	16	2,074	2,566	15
Construction	2,226	3,470	199	2,789	4,124	242
Mining	1,157	1,994	7	851	1,443	19
Communication and information	1,128	2,117	3	1,004	1,668	7
Accommodation and food	1,127	1,636	22	953	1,476	26
Other services	998	1,503	48	1,062	1,473	35
Entertainment and recreation	874	1,228	18	788	1,012	7
Public administration	644	886		616	848	9
Utilities	564	1,752		595	1,600	
Individuals	460	512	20	690	830	10
Agribusiness	425	564	65	483	621	85
Other	5	5		40	119	3
Total	\$ 45,472	76,418	1,058	\$ 43,462	72,341	1,214
By loan size:						
Less than \$200,000	2 %	2	7	3 %	2	8
\$200,000 to \$1 million	8	6	23	10	8	25
\$1 million to \$5 million	18	15	32	21	17	34
\$5 million to \$10 million	12	10	15	13	11	8
\$10 million to \$25 million	28	25	19	25	25	19
Greater than \$25 million	32	42	4	28	37	6
Total	100 %	100	100	100 %	100	100
By state:						
Ohio	24 %	27	16	25 %	29	17
Michigan	13	11	22	15	13	22
Florida	8	6	17	8	7	17
Illinois	7	8	10	8	8	8
Indiana	5	5	10	6	6	7
Kentucky	4	4	4	5	4	5
North Carolina	3	3	4	3	3	4
Tennessee	3	3	2	3	3	1
Pennsylvania	2	2	1	2	2	1
All other states	31	31	14	25	25	18
Total	100 %	100	100	100 %	100	100

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Bancorp has identified certain categories of loans which it believes represent a higher level of risk compared to the rest of the Bancorp's loan portfolio, due to economic or market conditions within the Bancorp's key lending areas.

The following table provides analysis of each of the categories of loans (excluding loans held for sale) by state as of December 31, 2011 and 2010.

**TABLE 30: NON-OWNER OCCUPIED COMMERCIAL REAL ESTATE**

As of December 31, 2011 (\$ in millions)	Outstanding	Exposure	90 Days		Net Charge-offs
			Past Due	Nonaccrual	
By State:					
Ohio	\$ 1,958	2,125	1	88	64
Michigan	1,443	1,476	1	77	39
Florida	713	740		72	44
Illinois	417	499	1	44	31
Indiana	312	316		13	6
North Carolina	302	332		33	13
All other states	586	650		35	14
Total	\$ 5,731	6,138	3	362	211

**TABLE 31: NON-OWNER OCCUPIED COMMERCIAL REAL ESTATE**

As of December 31, 2010 (\$ in millions)	Outstanding	Exposure	90 Days		Net Charge-offs
			Past Due	Nonaccrual	
By State:					
Ohio	\$ 2,332	2,565	2	90	119
Michigan	1,695	1,809	2	85	123
Florida	935	1,022	1	120	180
Illinois	568	654		39	65
Indiana	387	419		19	32
North Carolina	392	438		37	58
All other states	751	823		39	48
Total	\$ 7,060	7,730	5	429	625

**TABLE 32: HOME BUILDER AND DEVELOPER (a)**

As of December 31, 2011 (\$ in millions)	Outstanding	Exposure	90 Days		Net Charge-offs
			Past Due	Nonaccrual	
By State:					
Ohio	\$ 166	234		15	22
Michigan	108	128		8	7
Florida	64	73		27	12
North Carolina	50	56		13	7
Indiana	51	56		10	3
Illinois	16	27		9	4
All other states	57	69		14	1
Total	\$ 512	643		96	56

(a) Home Builder and Developer loans, exclusive of commercial and industrial loans with an outstanding balance of \$136 and a total exposure of \$222 are also included in Table 30: Non-Owner Occupied Commercial Real Estate.

**TABLE 33: HOME BUILDER AND DEVELOPER (a)**

As of December 31, 2010 (\$ in millions)	For the Year Ended December 31, 2010				
	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Net Charge-offs
By State:					
Ohio	\$ 202	331		35	39
Michigan	151	212	1	23	65
Florida	103	117		44	81
North Carolina	68	80		10	33
Indiana	67	85		8	13
All other states	108	159		20	43
Total	\$ 699	984	1	140	274

(a) Home Builder and Developer loans, exclusive of commercial and industrial loans with an outstanding balance of \$134 and a total exposure of \$319 are also included in Table 31: Non-Owner Occupied Commercial Real Estate.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**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 three percent of those resets expected to experience an increase in monthly payments in comparison to the monthly payment at the time of origination.

Certain residential mortgage products have contractual features that may increase credit exposure to the Bancorp in the event of a decline in housing values. These types of mortgage products offered by the Bancorp include loans with high LTV ratios, multiple loans on the same collateral that when combined result in an LTV greater than 80% and interest-only loans. The Bancorp monitors residential mortgage loans with greater than 80% LTV ratio and no mortgage insurance as it believes these loans represent a higher level of risk. The following table provides an analysis of the residential mortgage portfolio loans outstanding, excluding held for sale, by LTV at origination:

**TABLE 34: RESIDENTIAL MORTGAGE PORTFOLIO LOANS BY LTV AT ORIGINATION**

As of December 31 (\$ in millions)	2011		2010	
	Outstanding	Weighted Average LTV's	Outstanding	Weighted Average LTV's
LTV ≤ 80 %	\$ 7,876	66.6 %	6,419	68.0 %
LTV > 80%, with mortgage insurance	1,030	92.7	871	93.0
LTV > 80%, no mortgage insurance	1,766	95.6	1,666	95.4
Total	\$ 10,672	73.9 %	8,956	75.5 %

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 December 31, 2011 and 2010:

**TABLE 35: RESIDENTIAL MORTGAGE PORTFOLIO LOANS, LTV GREATER THAN 80%, NO MORTGAGE INSURANCE**

As of December 31, 2011 (\$ in millions)	Outstanding	90 Days Past Due	Nonaccrual	For the Year Ended
				December 31, 2011 Net Charge-offs
By State:				

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Ohio	\$	600	6	25	15
Michigan		305	1	14	13
Florida		283	2	27	29
North Carolina		123		4	7
Indiana		111	1	4	2
Illinois		122	1	3	2
Kentucky		84	1	3	1
All other states		138	1	5	7
Total	\$	1,766	13	85	76

**TABLE 36: RESIDENTIAL MORTGAGE LOANS OUTSTANDING, LTV GREATER THAN 80%, NO MORTGAGE INSURANCE**

As of December 31, 2010 (\$ in millions)		90 Days Past Due	Nonaccrual	For the Year Ended December 31, 2010 Net Charge-offs
By State:	Outstanding			
Ohio	\$ 569	3	24	22
Michigan	294	2	20	21
Florida	294	4	31	56
North Carolina	131	1	7	12
Indiana	111	1	4	6
Kentucky	78	1	3	2
Illinois	67		1	4
All other states	122	3	5	8
Total	\$ 1,666	15	95	131

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*****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 \$4.0 billion and \$6.7 billion, respectively, as of December 31, 2011. Of the total \$10.7 billion of outstanding home equity loans:

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

31% are in first lien positions and 69% are in second lien positions at December 31, 2011

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 90% of non-delinquent borrowers made at least one payment greater than the minimum payment during the year ended December 31, 2011

The portfolio had an average refreshed FICO score of 734 at December 31, 2011 and 2010.

The Bancorp actively manages lines of credit and makes reductions in lending limits when it believes it is necessary based on FICO score deterioration and property devaluation. The Bancorp does not routinely obtain appraisals on performing loans to update LTV ratios after origination. However, the Bancorp monitors the local housing markets by reviewing various home price indices and incorporates the impact of the changing market conditions in its on-going credit monitoring processes. For second lien home equity loans, the Bancorp is unable to track the performance of the first lien loans if it does not service the first lien loan, but instead monitors the refreshed FICO scores as part of its assessment of the home equity portfolio. The following table provides an analysis of home equity loans outstanding disaggregated based upon refreshed FICO score:

**TABLE 37: HOME EQUITY LOANS OUTSTANDING BY REFRESHED FICO SCORE**

(\$ in millions)	December 31, 2011	% of Total	December 31, 2010	% of Total
<b>First Liens:</b>				
FICO < 620	\$ 214	2%	230	2%
FICO 621-719	643	6	690	6
FICO > 720	2,466	23	2,533	22
Total First Liens	3,323	31	3,453	30
<b>Second Liens:</b>				
FICO < 620	750	7%	921	8%
FICO 621-719	1,929	18	1,957	17
FICO > 720	4,717	44	5,182	45
Total Second Liens	7,396	69	8,060	70
Total	\$ 10,719	100%	11,513	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 38: HOME EQUITY LOANS OUTSTANDING BY LTV AT ORIGINATION**

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As of December 31 (\$ in millions)	2011		2010	
	Outstanding	Weighted Average LTV s	Outstanding	Weighted Average LTV s
<b>First Liens:</b>				
LTV ≤ 80 %	\$ 2,800	54.9 %	2,903	55.1 %
LTV > 80%	523	89.2	550	89.4
Total First Liens	3,323	60.4	3,453	60.6
<b>Second Liens:</b>				
LTV ≤ 80 %	3,882	67.3	4,044	67.3
LTV > 80%	3,514	91.8	4,016	92.0
Total Second Liens	7,396	81.0	8,060	81.4
Total	\$ 10,719	74.0 %	11,513	74.6 %

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following tables provide analysis of home equity loans by state with LTV greater than 80% as of December 31, 2011 and 2010.

**TABLE 39: HOME EQUITY LOANS OUTSTANDING WITH LTV GREATER THAN 80%**

As of December 31, 2011 (\$ in millions)	Outstanding	Exposure	90 Days Past Due	Nonaccrual	For the Year Ended
					December 31, 2011
By State:					
Ohio	\$ 1,393	2,083	12	7	33
Michigan	884	1,197	8	4	37
Illinois	448	630	8	2	17
Indiana	391	573	2	2	9
Kentucky	366	549	3	2	8
Florida	146	190	4	3	17
All other states	409	519	5	2	19
Total	\$ 4,037	5,741	42	22	140

**TABLE 40: HOME EQUITY LOANS OUTSTANDING WITH LTV GREATER THAN 80%**

As of December 31, 2010 (\$ in millions)	Outstanding	Exposure	90 Days Past Due	Nonaccrual	For the Year Ended
					December 31, 2010
By State:					
Ohio	\$ 1,576	2,288	9	7	35
Michigan	998	1,317	9	5	50
Illinois	482	662	5	3	22
Indiana	451	638	4	2	10
Kentucky	421	614	3	2	9
Florida	172	218	8	4	21
All other states	466	568	7	4	28
Total	\$ 4,566	6,305	45	27	175

***Automobile Portfolio***

The automobile portfolio is characterized by direct and indirect lending products to consumers. As of December 31, 2011, 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 41: AUTOMOBILE LOANS OUTSTANDING WITH LTV AT ORIGINATION**

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As of December 31 (\$ in millions)	2011		2010	
	Outstanding	Weighted Average LTV s	Outstanding	Weighted Average LTV s
LTV ≤ 100 %	\$ 7,805	81.7 %	6,853	81.8 %
LTV > 100%	4,022	111.5	4,130	112.8
Total	\$ 11,827	92.1 %	10,983	93.8 %

The following tables provide analysis of the Bancorp's automobile loans with a LTV at origination greater than 100% as of December 31, 2011 and 2010, respectively.

**TABLE 42: AUTOMOBILE LOANS OUTSTANDING WITH LTV GREATER THAN 100%**

As of December 31, 2011 (\$ in millions)	Outstanding	90 Days Past Due	Nonaccrual	For the Year Ended
				December 31, 2011 Net Charge-offs
By State:				
Ohio	\$ 425	1		3
Illinois	291			3
Michigan	245			2
Indiana	181			2
Florida	192			3
Kentucky	158			1
All other states	2,530	3	2	20
Total	\$ 4,022	4	2	34

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TABLE 43: AUTOMOBILE LOANS OUTSTANDING WITH LTV GREATER THAN 100%

As of December 31, 2010 (\$ in millions)	Outstanding	90 Days Past Due	Nonaccrual	For the Year Ended
				December 31, 2010
By State:				Net Charge-offs
Ohio	\$ 447	1		5
Illinois	375	1		5
Michigan	269			4
Indiana	208	1		3
Florida	199			5
Kentucky	181			3
All other states	2,451	4	2	33
Total	\$ 4,130	7	2	58

*European Exposure*

The Bancorp has no direct sovereign exposure to any European nation as of December 31, 2011. 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 \$2.2 billion and funded exposure was \$1.4 billion as of December 31, 2011.

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 including Portugal, Ireland, Italy, Greece and Spain. The Bancorp's total exposure to businesses domiciled or owned by companies and financial institutions in these countries was approximately \$138 million and funded exposure was \$72 million as of December 31, 2011. The following table provides detail about the Bancorp's exposure to all European domiciled and owned businesses and financial institutions as of December 31, 2011:

TABLE 44: EUROPEAN EXPOSURE

(\$ in millions)	Sovereigns		Financial Institutions		Non-Financial Institutions		Total	
	Total Exposure	Funded Exposure	Total Exposure	Funded Exposure	Total Exposure	Funded Exposure	Total Exposure (a)	Funded Exposure
Peripheral Europe <sup>(b)</sup>	\$		2		136	72	138	72
Other Eurozone <sup>(c)</sup>			111	53	1,106	751	1,217	804
<b>Total Eurozone</b>			113	53	1,242	823	1,355	876
Other Europe <sup>(d)</sup>			60	31	801	501	861	532
<b>Total Europe</b>	\$		173	84	2,043	1,324	2,216	1,408

(a) Total exposure includes funded and unfunded commitments, net of collateral; funded exposure excludes unfunded exposure.

(b) Peripheral Europe includes Portugal, Ireland, Italy, Greece and Spain.

(c) 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 45. Residential mortgage loans are typically 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 and leases 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 \$2.0 billion at December 31 2011 compared to \$2.5 billion at December 31, 2010. At December 31, 2011, \$138 million of nonaccrual loans, consisting primarily of real estate secured loans, were held for sale, compared to \$294 million at December 31, 2010.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Nonperforming assets as a percentage of total loans, leases and other assets, including OREO and nonaccrual loans held for sale as of December 31, 2011 were 2.32%, compared to 3.08% as of December 31, 2010. Excluding nonaccrual loans held for sale, nonperforming assets as a percentage of total loans, leases and other assets, including OREO was 2.23% as of December 31, 2011, compared to 2.79% as of December 31, 2010. 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 December 31, 2011 compared to 66% as of December 31, 2010.

Commercial nonperforming loans and leases were \$1.2 billion at December 31, 2011, a decrease of \$312 million from December 31, 2010, 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 December 2011 decreased \$156 million compared to December 31, 2010. The decrease from December 31, 2010 was due to a continued decrease in new nonaccruals and an increase in paydowns and payoffs in 2011 due to improved delinquency metrics and an improvement in underlying loss trends. The Bancorp transferred commercial loans with a carrying balance of \$961 million, prior to transfer, to held for sale during the third quarter of 2010, of which \$694 million were nonperforming. At December 31, 2011, the remaining carrying balance of these loans was \$67 million.

Consumer nonperforming loans and leases were \$380 million at December 31, 2011, a decrease of \$86 million from December 31, 2010. The decrease was mainly due to a \$83 million decrease in other consumer loans and leases due primarily to charge-offs taken on certain consumer loans acquired during the fourth quarter of 2010 as the result of a foreclosure on a commercial loan collateralized by individual consumer loans. These loans were fully charged off as of December 31, 2011. Home equity nonaccrual levels remain modest as the Bancorp continues to fully charge-off a high proportion of the severely delinquent loans at 180 days past due. Geography continues to be a large driver of nonaccrual activity as Florida properties represent approximately 16% and 8% of residential mortgage and home equity balances, respectively, but represent 45% and 16% of nonaccrual loans for each category. Consumer restructured loans on accrual status totaled \$1.6 billion at December 31, 2011 and 2010. As of December 31, 2011, redefault rates, defined as 30 days delinquent, on restructured residential mortgage were 29% and home equity loans and credit card loans were each 16%.

OREO and other repossessed property was \$378 million at December 31, 2011, compared to \$494 million at December 31, 2010. The decrease from December 31, 2010 was due to the sale of large OREO properties and improvements in general economic conditions during 2011. The Bancorp recognized \$171 million and \$264 million in losses on the sale or write-down of OREO properties in 2011 and 2010, 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 16% and 26%, respectively, of total OREO losses in 2011 compared with 12% and 14%, respectively, in 2010. Properties in Michigan and Florida accounted for 42% of foreclosed real estate at December 31, 2011, compared to 49% at December 31, 2010.

In 2011 and 2010, approximately \$125 million and \$206 million, respectively, of interest income would have been recorded if the nonaccrual and renegotiated loans and leases on nonaccrual status had been current in accordance with their original terms. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TABLE 45: SUMMARY OF NONPERFORMING ASSETS AND DELINQUENT LOANS

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Nonaccrual loans and leases:					
Commercial and industrial loans <sup>(a)</sup>	\$ 408	473	734	541	175
Commercial mortgage loans	358	407	898	482	243
Commercial construction loans	123	182	646	362	249
Commercial leases	9	11	67	21	5
Residential mortgage loans	134	152	275	259	92
Home equity	25	23	21	26	45
Automobile loans		1	1	5	3
Other consumer loans and leases <sup>(a)</sup>	1	84			1
Restructured loans and leases:					
Commercial and industrial loans	79	95	35		
Commercial mortgage loans	63	28	4		
Commercial construction loans	15	10	8		
Commercial leases	3	8			
Residential mortgage loans <sup>(b)</sup>	141	116	137	20	27
Home equity <sup>(b)</sup>	29	33	33	29	11
Automobile loans <sup>(b)</sup>	2	2	1	1	
Credit card	48	55	87	30	5
Total nonperforming loans and leases	1,438	1,680	2,947	1,776	856
OREO and other repossessed property	378	494	297	230	171
Total nonperforming assets	1,816	2,174	3,244	2,006	1,027
Nonaccrual loans held for sale	138	294	224	473	
Total nonperforming assets including loans held for sale	\$ 1,954	2,468	3,468	2,479	1,027
Loans and leases 90 days past due and accruing					
Commercial and industrial loans	\$ 4	16	118	76	44
Commercial mortgage loans	3	11	59	136	73
Commercial construction loans	1	3	17	74	67
Commercial leases			4	4	4
Residential mortgage loans <sup>(d)</sup>	79	100	189	198	186
Home equity	74	89	99	96	72
Automobile loans	9	13	17	21	13
Credit card and other	30	42	64	56	31
Other consumer loans and leases				1	1
Total loans and leases 90 days past due and accruing	\$ 200	274	567	662	491
Nonperforming assets as a percent of portfolio loans, leases and other assets, including OREO <sup>(c)</sup>	2.23%	2.79	4.22	2.38	1.25
Allowance for loan and lease losses as a percent of nonperforming assets <sup>(b)</sup>	124	138	116	139	93

(a) For 2010, nonaccrual loans and leases reflect a reclassification of \$84 million in nonperforming loans from commercial and industrial loans to other consumer loans and leases which occurred after the Bancorp's Form 8-K was filed on January 19, 2011. This reclassification was primarily a result of the determination that consumer loans obtained in the foreclosure of a commercial loan were more appropriately categorized as other consumer loans and leases in accordance with regulatory guidance.

(b) During 2009, the Bancorp modified its consumer nonaccrual policy to exclude TDR loans that were less than 90 days past due because they were performing in accordance with the restructured terms. For comparability purposes, prior periods were adjusted to reflect this reclassification.

(c) Excludes nonaccrual loans held for sale.

(d) 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 December 31, 2011, 2010, 2009, 2008, and 2007 these advances were \$309, \$279, \$130, \$40, and \$25, respectively. The Bancorp recognized immaterial credit losses for the year ended December 31, 2011 and \$2 million for 2010 due to claim denials and curtailments associated with these advances.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**TABLE 46: ROLLFORWARD OF PORTFOLIO NONPERFORMING LOANS AND LEASES**

	Commercial	Residential Mortgage	Consumer	Total
For the year ended December 31, 2011 (\$ in millions)				
Beginning Balance	\$ 1,214	268	198	1,680
Transfers to nonperforming	1,075	396	456	1,927
Transfers to performing	(23)	(45)	(85)	(153)
Transfers to performing (restructured)	(1)	(74)	(95)	(170)
Transfers from held for sale	4			4
Transfers to held for sale	(92)			(92)
Loans sold from portfolio	(57)	(1)	(21)	(79)
Loan paydowns/payoffs	(425)	(85)	(13)	(523)
Transfers to other real estate owned	(110)	(79)		(189)
Charge-offs	(554)	(106)	(342)	(1,002)
Draws/other extensions of credit	27	1	7	35
Ending Balance	\$ 1,058	275	105	1,438
For the year ended December 31, 2010				
Beginning Balance	\$ 2,392	412	143	2,947
Transfers to nonperforming	1,666	624	551	2,841
Transfers to performing	(32)	(67)	(46)	(145)
Transfers to performing (restructured)	(10)	(69)	(61)	(140)
Transfers to held for sale	(386)	(205)		(591)
Loans sold from portfolio	(48)			(48)
Loan paydowns/payoffs	(773)	(88)	(42)	(903)
Transfers to other real estate owned	(290)	(163)	(1)	(454)
Charge-offs	(1,364)	(176)	(358)	(1,898)
Draws/other extensions of credit	59		12	71
Ending Balance	\$ 1,214	268	198	1,680

***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 47: PERFORMING AND NONPERFORMING TDRs**

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As of December 31, 2011 (\$ in millions)	Current	Performing		Nonaccrual	Total
		30-89 Days Past Due	90 Days or More Past Due		
Commercial	\$ 388	2		160	\$ 550
Residential mortgages <sup>(a)</sup>	978	72	67	141	1,258
Home equity	372	39		29	440
Credit card	44			48	92
Other consumer	38	2		2	42
Total	\$ 1,820	115	67	380	\$ 2,382

*(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 December 31, 2011, these advances represented \$64 of current loans, \$16 of 30-89 days past due loans and \$46 of 90 days or more past due loans.*

**Analysis of Net Loan Charge-offs**

Net charge-offs were 149 bps and 302 bps of average loans and leases for the years ended December 31, 2011 and 2010, respectively. Table 48 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 126 bps during 2011 compared to 310 bps in 2010, as a result of decreases in net charge-offs of \$810 million. Decreases in net charge-offs were realized across all commercial loan types 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. In addition, the Bancorp implemented other loss mitigation strategies that included the previously mentioned sale of troubled loans during the third quarter of 2010. Net charge-offs for 2011 related to non-owner occupied commercial real estate were \$211 million compared to \$625 million in 2010. 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 48. Net charge-offs on these loans represented 38% of total commercial loan and lease net charge-offs in 2011 and 46% in 2010.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The ratio of consumer loan and lease net charge-offs to average consumer loans and leases decreased to 179 bps in 2011 compared to 292 bps in 2010. Residential mortgage loan net charge-offs, which typically involve partial charge-offs based upon appraised values of underlying collateral, decreased \$266 million from the prior year as a result of improvements in delinquencies and a decrease in the average loss recorded per charge-off. Additionally, the prior year included \$123 million in net charge-offs that were recorded on residential mortgage portfolio loans sold during the third quarter of 2010. The Bancorp's Florida and Michigan markets accounted for 58% and 72% of net charge-offs on residential mortgage loans in the portfolio in 2011 and 2010, respectively. Fifth Third 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 \$44 million compared to the prior year, 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 \$35 million compared to 2010, 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 \$57 million from 2010 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 increased \$56 million compared to 2010 due to 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. These loans were fully charged off as of December 31, 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TABLE 48: SUMMARY OF CREDIT LOSS EXPERIENCE

For the years ended December 31 (\$ in millions)	2011	2010	2009	2008	2007
Losses charged off:					
Commercial and industrial loans	\$ (314)	(631)	(768)	(667)	(121)
Commercial mortgage loans	(211)	(541)	(436)	(618)	(46)
Commercial construction loans	(89)	(265)	(420)	(750)	(29)
Commercial leases	(1)	(7)	(11)		(1)
Residential mortgage loans	(180)	(441)	(359)	(243)	(43)
Home equity	(234)	(276)	(330)	(212)	(106)
Automobile loans	(85)	(132)	(189)	(168)	(117)
Credit card	(114)	(164)	(178)	(101)	(54)
Other consumer loans and leases	(86)	(28)	(28)	(32)	(27)
Total losses	(1,314)	(2,485)	(2,719)	(2,791)	(544)
Recoveries of losses previously charged off:					
Commercial and industrial loans	38	45	50	18	12
Commercial mortgage loans	16	17	14	5	2
Commercial construction loans	4	13	4	2	
Commercial leases	3	5	4	1	1
Residential mortgage loans	7	2	2		
Home equity	14	12	8	7	9
Automobile loans	32	44	41	34	32
Credit card	16	9	8	7	8
Other consumer loans and leases	12	10	7	7	18
Total recoveries	142	157	138	81	82
Net losses charged off:					
Commercial and industrial loans	(276)	(586)	(718)	(649)	(109)
Commercial mortgage loans	(195)	(524)	(422)	(613)	(44)
Commercial construction loans	(85)	(252)	(416)	(748)	(29)
Commercial leases	2	(2)	(7)	1	
Residential mortgage loans	(173)	(439)	(357)	(243)	(43)
Home equity	(220)	(264)	(322)	(205)	(97)
Automobile loans	(53)	(88)	(148)	(134)	(85)
Credit card	(98)	(155)	(170)	(94)	(46)
Other consumer loans and leases	(74)	(18)	(21)	(25)	(9)
Total net losses charged off	\$ (1,172)	(2,328)	(2,581)	(2,710)	(462)
Net charge-offs as a percent of average loans and leases (excluding held for sale):					
Commercial and industrial loans	0.97 %	2.23	2.61	2.31	0.49
Commercial mortgage loans	1.89	4.58	3.43	4.80	0.40
Commercial construction loans	4.96	8.48	9.24	12.80	0.51
Commercial leases	(0.08)	0.05	0.22	(0.02)	0.01
Total commercial loans	1.26	3.10	3.27	3.99	0.43
Residential mortgage loans	1.75	5.49	4.15	2.47	0.48
Home equity	1.97	2.20	2.57	1.67	0.82
Automobile loans	0.47	0.85	1.68	1.56	0.83
Credit card	5.19	8.28	8.87	5.51	3.55
Other consumer loans and leases	15.29	2.58	2.14	2.10	0.83
Total consumer loans and leases	1.79	2.92	3.10	2.08	0.84
Total net losses charged off	1.49 %	3.02	3.20	3.23	0.61

*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. See the Critical Accounting Policies section for more information.

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

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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 49: CHANGES IN ALLOWANCE FOR CREDIT LOSSES**

For the years ended December 31 (\$ in millions)	2011	2010	2009	2008	2007
<b>ALLL:</b>					
Balance, beginning of period	\$ 3,004	3,749	2,787	937	771
Impact of change in accounting principle		45			
Losses charged off	(1,314)	(2,485)	(2,719)	(2,791)	(544)
Recoveries of losses previously charged off	142	157	138	81	82
Provision for loan and lease losses	423	1,538	3,543	4,560	628
Balance, end of period	\$ 2,255	3,004	3,749	2,787	937
<b>Reserve for unfunded commitments:</b>					
Balance, beginning of period	\$ 227	294	195	95	76
Impact of change in accounting principle		(43)			
Provision for loan and lease losses	(46)	(24)	99	100	19
Balance, end of period	\$ 181	227	294	195	95

In 2011, 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 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 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 at December 31, 2011 and 2010 was 0.17% and 0.19%, respectively. The unallocated allowance increased from five percent at December 31, 2010 to six percent of the total allowance for December 31, 2011. The increase in the unallocated allowance as a percentage of the total allowance 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 50, the ALLL as a percent of the total loan and lease portfolio was 2.78% at December 31, 2011, compared to 3.88% at December 31, 2010. The ALLL was \$2.3 billion as of December 31, 2011, compared to \$3.0 billion at December 31, 2010. The decrease 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 \$132 million at December 31, 2011. 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 \$59 million at December 31, 2011. 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 expectation



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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.

The Bancorp continually reviews its credit administration and loan and lease portfolio and makes changes based on the performance of its products. As previously discussed, management discontinued the origination of brokered home equity products at the end of 2007, suspended homebuilder lending in 2007 and new commercial non-owner occupied real estate lending in 2008, and tightened underwriting standards across both the commercial and consumer loan product offerings.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**TABLE 50: ATTRIBUTION OF ALLOWANCE FOR LOAN AND LEASE LOSSES TO PORTFOLIO LOANS AND LEASES**

As of December 31 (\$ in millions)	2011	2010	2009	2008	2007
Allowance attributed to:					
Commercial and industrial loans	\$ 929	1,123	1,282	824	271
Commercial mortgage loans	441	597	734	363	135
Commercial construction loans	77	158	380	252	98
Commercial leases	80	111	121	61	27
Residential mortgage loans	227	310	375	388	67
Home equity	195	265	294	289	124
Automobile loans	43	73	127	150	79
Credit card	106	158	199	148	69
Other consumer loans and leases	21	59	44	33	20
Unallocated	136	150	193	279	47
Total ALLL	\$ 2,255	3,004	3,749	2,787	937
Portfolio loans and leases:					
Commercial and industrial loans	\$ 30,783	27,191	25,683	29,197	24,813
Commercial mortgage loans	10,138	10,845	11,803	12,502	11,862
Commercial construction loans	1,020	2,048	3,784	5,114	5,561
Commercial leases	3,531	3,378	3,535	3,666	3,737
Residential mortgage loans	10,672	8,956	8,035	9,385	10,540
Home equity	10,719	11,513	12,174	12,752	11,874
Automobile loans	11,827	10,983	8,995	8,594	9,201
Credit card	1,978	1,896	1,990	1,811	1,591
Other consumer loans and leases	350	681	780	1,122	1,074
Total portfolio loans and leases	\$ 81,018	77,491	76,779	84,143	80,253
Attributed allowance as a percent of respective portfolio loans and leases:					
Commercial and industrial loans	3.02 %	4.13	4.99	2.82	1.09
Commercial mortgage loans	4.35	5.50	6.22	2.90	1.14
Commercial construction loans	7.55	7.71	10.04	4.93	1.77
Commercial leases	2.27	3.29	3.42	1.66	0.72
Residential mortgage loans	2.13	3.46	4.67	4.13	0.63
Home equity	1.82	2.30	2.41	2.27	1.04
Automobile loans	0.36	0.66	1.41	1.75	0.86
Credit card	5.36	8.33	10.00	8.17	4.34
Other consumer loans and leases	6.00	8.66	5.64	2.94	1.86
Unallocated (as a percent of total portfolio loans and leases)	0.17	0.19	0.25	0.33	0.06
Total portfolio loans and leases	2.78 %	3.88	4.88	3.31	1.17

**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***

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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 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

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decrease scenarios; therefore, those scenarios were omitted from the interest rate risk analyses at December 31, 2011. In accordance with the current policy, the rate movements are assumed to occur over one year and are sustained thereafter.

At December 31, 2011, the Bancorp's interest rate risk profile reflects a neutral position in year one and slight asset sensitivity in year two. The following table shows the Bancorp's estimated net interest income sensitivity profile and ALCO policy limits as of December 31:

**TABLE 51: ESTIMATED NII SENSITIVITY PROFILE**

Change in Interest Rates (bps)	2011		2010		ALCO Policy Limits	
	Percent Change in NII (FTE)		Percent Change in NII (FTE)		ALCO Policy Limits	
	12 Months	13 to 24 Months	12 Months	13 to 24 Months	12 Months	13 to 24 Months
+ 200	<b>0.35 %</b>	<b>5.61</b>	1.02 %	4.99	(5.00)	(7.00)
+ 100		<b>2.64</b>	0.49	2.73		

The 12 months net interest income at risk reported as of December 31, 2011 for the +200 and +100 basis point scenarios shows a modest decline in asset sensitivity compared with December 31, 2010. The primary factors contributing to this change are an increase in fixed-rate loans partially offset by growth in deposits.

***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 prepayments and the expected changes in balances and pricing of transaction deposit portfolios. The following table shows the Bancorp's EVE sensitivity profile as of December 31:

**TABLE 52: ESTIMATED EVE SENSITIVITY PROFILE**

Change in Interest Rates (bps)	2011	2010	ALCO Policy Limits
	Change in EVE	Change in EVE	
+ 200	<b>1.37 %</b>	(1.62)%	(15.00)%
+ 100	<b>1.22</b>	(0.50)	
+ 25	<b>0.32</b>	(0.09)	
- 25	<b>(0.25)</b>	(0.13)	

The EVE at risk profile suggests slight asset sensitivity from market rate increases through the +200 bps scenario. The EVE at risk reported at December 31, 2011 for the +200 basis points scenario shows a change to a modest asset sensitive position compared to December 31, 2010. The primary factors contributing to the change are the decline in market interest rates over the course of 2011 and growth in core deposits, partially offset by the impact of the increase in fixed-rate loans.

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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 the adverse impact of changes in interest rates. The NII simulation and EVE analyses do not necessarily include certain actions that management may undertake to manage this 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 TBAs.

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 13 of the Notes to Consolidated Financial Statements.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
***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 53 summarizes the expected principal cash flows of the Bancorp's portfolio loans and leases as of December 31, 2011. Additionally, Table 54 displays a summary of expected principal cash flows occurring after one year for both fixed and floating/adjustable rate loans, as of December 31, 2011.

**TABLE 53: PORTFOLIO LOAN AND LEASE CONTRACTUAL MATURITIES**

As of December 31, 2011 (\$ in millions)	Less than 1 year	1-5 years	Over 5 years	Total
Commercial and industrial loans	\$ 9,439	19,199	2,145	30,783
Commercial mortgage loans	4,412	4,652	1,074	10,138
Commercial construction loans	534	290	196	1,020
Commercial leases	575	1,498	1,458	3,531
Subtotal commercial loans and leases	14,960	25,639	4,873	45,472
Residential mortgage loans	4,787	4,385	1,500	10,672
Home equity	1,494	3,171	6,054	10,719
Automobile loans	4,908	6,700	219	11,827
Credit card	556	1,422		1,978
Other consumer loans and leases	270	71	9	350
Subtotal consumer loans and leases	12,015	15,749	7,782	35,546
Total	\$ 26,975	41,388	12,655	81,018

**TABLE 54: PORTFOLIO LOAN AND LEASE PRINCIPAL CASH FLOWS OCCURRING AFTER ONE YEAR**

As of December 31, 2011 (\$ in millions)	Interest Rate	
	Fixed	Floating or Adjustable
Commercial and industrial loans	\$ 3,683	17,661
Commercial mortgage loans	1,823	3,903
Commercial construction loans	181	305
Commercial leases	2,956	
Subtotal commercial loans and leases	8,643	21,869
Residential mortgage loans	3,835	2,050
Home equity	1,067	8,158
Automobile loans	6,868	51
Credit card	640	782
Other consumer loans and leases	31	49
Subtotal consumer loans and leases	12,441	11,090
Total	\$ 21,084	32,959

***Residential Mortgage Servicing Rights and Interest Rate Risk***

The net carrying amount of the residential MSR portfolio was \$681 million and \$822 million as of December 31, 2011 and 2010, 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 during both 2011 and 2010. These decreases caused modeled prepayment speeds to increase, which led to \$242 million in temporary impairment on servicing rights during the year ended 2011, compared to \$36 million in temporary impairment in 2010. 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. Offsetting the mortgage servicing rights valuation, the Bancorp recognized net gains of \$354 million and \$123 million on its non-qualifying hedging strategy for the years ended 2011 and 2010, respectively. The net gains include net gains from the sale of securities related to the Bancorp's non-qualifying hedging strategy of \$9 million and \$14 million for 2011 and 2010, respectively. 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 25% of the carrying value of the MSR portfolio as of December 31, 2011. The prepayment behavior of these loans is expected to be less sensitive to changes in interest rates as borrower credit characteristics and home price values have a greater impact based on changes in the market and underwriting environment. Thus, the predictive power of traditional prepayment models on these loans may not be reliable, which reduces the effectiveness of interest rate based hedge strategies. 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 12 of the Notes to 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 Consolidated Statements of Income. The balance of the Bancorp's foreign denominated loans at December 31, 2011 and

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2010 was approximately \$374 million and \$283 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 17 of the Notes to 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 53 of the Market Risk Management section of MD&A. Of the \$15.4 billion of securities in the Bancorp's available-for-sale portfolio at December 31, 2011, \$4.4 billion in principal and interest is expected to be received in the next 12 months and an additional \$3.0 billion is expected to be received in the next 13 to 24 months. For further information on the Bancorp's securities portfolio, see the Securities 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. For the years ended December 31, 2011 and 2010, the Bancorp sold loans totaling \$15.2 billion and \$18.2 billion, respectively. For further information on the transfer of financial assets, see Note 12 of the Notes to 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 during 2011, compared to 80% in 2010. 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 approximately \$7.2 billion of unsecured long-term debt outstanding as of December 31, 2011. Long-term debt with a principal balance of \$8 million will mature during 2012. As of December 31, 2011, \$6.1 billion of debt or other securities were available for issuance under the current Bancorp's Board of Directors' authorizations and the Bancorp is authorized to file any necessary registration statements with the SEC to permit ready access to the public securities markets; 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 \$31.0 billion of borrowing capacity available through secured borrowing sources including the FHLB and FRB.



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On January 25, 2011, the Bancorp raised \$1.7 billion in new common equity through the issuance of 121,428,572 shares of common stock in an underwritten offering at an initial price of \$14.00 per share. Additionally, on January 25, 2011, the Bancorp sold \$1.0 billion in aggregate principal amount of 3.625% Senior Notes due January 25, 2016. Notes 16 and 23 of the Notes to Consolidated Financial Statements provide additional information regarding the Senior Notes and common equity offerings, respectively.

### *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 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 55. 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.

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**TABLE 55: AGENCY RATINGS**

As of February 29, 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				