FIFTH THIRD BANCORP
Form 10-Q
August 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2018

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

Ohio	**31-0854434**
(State or other jurisdiction	**(I.R.S. Employer**
of incorporation or organization)	**Identification Number)**

Fifth Third Center

Cincinnati, Ohio 45263

(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 668,092,149 shares of the Registrant s common stock, without par value, outstanding as of July 31, 2018.

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FINANCIAL CONTENTS

FORWARD-LOOKING STATEMENTS

This report contains statements that we believe are forward-looking statements 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. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, potential, e forecast, projected, intends to, or may include other similar words or phrases such as believes, plans, trend, continue, remain, or similar expressions, or future or conditional verbs such as will, would, should, could, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to the risk factors set forth in the Risk Factors section in Item 1A in our most recent Annual Report on Form 10-K as updated by our Quarterly Reports on Form 10-Q . When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to us. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) deteriorating credit quality; (2) loan concentration by location or industry of borrowers or collateral; (3) problems encountered by other financial institutions; (4) inadequate sources of funding or liquidity; (5) unfavorable actions of rating agencies; (6) inability to maintain or grow deposits; (7) limitations on the ability to receive dividends from subsidiaries; (8) cyber-security risks; (9) Fifth Third s ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; (10) failures by third-party service providers; (11) inability to manage strategic initiatives and/or organizational changes; (12) inability to implement technology system enhancements; (13) failure of internal controls and other risk management systems; (14) losses related to fraud, theft or violence; (15) inability to attract and retain skilled personnel; (16) adverse impacts of government regulation; (17) governmental or regulatory changes or other actions; (18) failures to meet applicable capital requirements; (19) regulatory objections to Fifth Third s capital plan; (20) regulation of Fifth Third s derivatives activities; (21) regulatory objections to Fifth Third s resolution plan; (22) deposit insurance premiums; (23) assessments for the orderly liquidation fund; (24) changes in LIBOR; (25) weakness in the national or local economies; (26) global political and economic uncertainty or negative actions; (27) changes in interest rates; (28) changes and trends in capital markets; (29) fluctuation of Fifth Third s stock price; (30) volatility in mortgage banking revenue; (31) litigation, investigations, and enforcement proceedings by governmental authorities; (32) breaches of contractual covenants, representations and warranties; (33) competition and changes in the financial services industry; (34) changing retail distribution strategies, customer preferences and behavior; (35) risks relating to the potential merger with MB Financial, Inc. and Fifth Third s ability to realize the anticipated benefits of the merger; (36) difficulties in identifying, acquiring or integrating suitable strategic partnerships, investments or acquisitions; (37) potential dilution from future acquisitions; (38) loss of income and/or difficulties encountered in the sale and separation of businesses, investments or other assets; (39) results of Vantiv Holding, LLC, a subsidiary of Worldpay, Inc. or other investments or acquired entities; (40) difficulties from or changes in Fifth Third s investment in, relationship with, and nature of the operations of Vantiv Holding, LLC, a subsidiary of Worldpay, Inc.; (41) changes in accounting standards or interpretation or declines in the value of Fifth Third s goodwill or other intangible assets; (42) inaccuracies or other failures from the use of models; (43) effects of critical accounting policies and judgments or the use of inaccurate estimates; (44) weather related events or other natural disasters; and (45) the impact of reputational risk created by these or other developments on such matters as business generation and retention, funding and liquidity.

Glossary of Abbreviations and Acronyms

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

ALCO: Asset Liability Management Committee

ALLL: Allowance for Loan and Lease Losses

AOCI: Accumulated Other Comprehensive Income (Loss)

APR: Annual Percentage Rate

ARM: Adjustable Rate Mortgage

ASF: Available Stable Funding

ASU: Accounting Standards Update

ATM: Automated Teller Machine

BCBS: Basel Committee on Banking Supervision

BHC: Bank Holding Company

BOLI: Bank Owned Life Insurance

BPO: Broker Price Opinion

bps: Basis Points

CCAR: Comprehensive Capital Analysis and Review

CDC: Fifth Third Community Development Corporation

CET1: Common Equity Tier 1

CFPB: Consumer Financial Protection Bureau

C&I: Commercial and Industrial

HQLA: High Quality Liquid Assets

IPO: Initial Public Offering

IRC: Internal Revenue Code

IRLC: Interest Rate Lock Commitment

ISDA: International Swaps and Derivatives Association, Inc.

LCR: Liquidity Coverage Ratio

LIBOR: London Interbank Offered Rate

LLC: Limited Liability Company

LTV: Loan-to-Value

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

MSR: Mortgage Servicing Right

N/A: Not Applicable

NII: Net Interest Income

NM: Not Meaningful

NSFR: Net Stable Funding Ratio

OAS: Option-Adjusted Spread

OCI: Other Comprehensive Income (Loss)

DCF: Discounted Cash Flow

DFA: Dodd-Frank Wall Street Reform & Consumer Protection Act

DTCC: Depository Trust & Clearing Corporation

ERM: Enterprise Risk Management

ERMC: Enterprise Risk Management Committee

EVE: Economic Value of Equity

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

FHA: Federal Housing Administration

FHLB: Federal Home Loan Bank

FHLMC: Federal Home Loan Mortgage Corporation

FICO: Fair Isaac Corporation (credit rating)

FINRA: Financial Industry Regulatory Authority

FNMA: Federal National Mortgage Association

FOMC: Federal Open Market Committee

FRB: Federal Reserve Bank

FTE: Fully Taxable Equivalent

FTP: Funds Transfer Pricing

FTS: Fifth Third Securities

GDP: Gross Domestic Product

GNMA: Government National Mortgage Association

GSE: United States Government Sponsored Enterprise

OREO: Other Real Estate Owned

OTTI: Other-Than-Temporary Impairment

PCA: Prompt Corrective Action

RCC: Risk Compliance Committee

RSF: Required Stable Funding

SAR: Stock Appreciation Right

SBA: Small Business Administration

SCB: Stress Capital Buffer

SEC: United States Securities and Exchange Commission

SLB: Stress Leverage Buffer

TBA: To Be Announced

TCJA: Tax Cuts and Jobs Act

TDR: Troubled Debt Restructuring

TILA: Truth in Lending Act

TRA: Tax Receivable Agreement

U.S.: United States of America

U.S. GAAP: United States Generally Accepted Accounting Principles

VA: United States Department of Veteran Affairs

VIE: Variable Interest Entity

VRDN: Variable Rate Demand Note

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 2)

The following is Management s Discussion and Analysis of Financial Condition and Results of Operations of certain significant factors that have affected Fifth Third Bancorp s (the Bancorp or Fifth Third) financial condition and results of operations during the periods included in the Condensed Consolidated Financial Statements, which are a part of this filing. Reference to the Bancorp incorporates the parent holding company and all consolidated subsidiaries. The Bancorp s banking subsidiary is referred to as the Bank.

TABLE 1: Selected Financial Data

($ in millions, except for per share data)	For the three months ended June 30, 2018	2017	% Change	For the six months ended June 30, 2018	2017	% Change
Income Statement Data						
Net interest income (U.S. GAAP)	$ **1,020**	939	9	$ **2,016**	1,872	8
Net interest income (FTE)[(a)(b)]	**1,024**	945	8	**2,023**	1,884	7
Noninterest income	**743**	564	32	**1,652**	1,087	52
Total revenue[(a)]	**1,767**	1,509	17	**3,675**	2,971	24
Provision for loan and lease losses	**33**	52	(37)	**56**	126	(56)
Noninterest expense	**1,037**	957	8	**2,083**	1,943	7
Net income attributable to Bancorp	**586**	367	60	**1,290**	672	92
Net income available to common shareholders	**563**	344	64	**1,252**	634	97
Common Share Data						
Earnings per share - basic	$ **0.81**	0.46	76	$ **1.80**	0.84	115
Earnings per share - diluted	**0.80**	0.45	78	**1.77**	0.83	113
Cash dividends declared per common share	**0.18**	0.14	29	**0.34**	0.28	21
Book value per share	**21.97**	20.42	8	**21.97**	20.42	8
Market value per share	**28.70**	25.96	11	**28.70**	25.96	11
Financial Ratios						
Return on average assets	**1.66** %	1.05	58	**1.84** %	0.97	90
Return on average common equity	**15.3**	9.0	70	**17.0**	8.4	102
Return on average tangible common equity[(b)]	**18.4**	10.7	72	**20.4**	10.0	104
Dividend payout ratio	**22.2**	30.4	(27)	**18.9**	33.3	(43)
Average total Bancorp shareholders equity as a percent of average assets	**11.38**	11.84	(4)	**11.45**	11.78	(3)
Tangible common equity as a percent of tangible assets[(b)(h)]	**9.33**	9.02	3	**9.33**	9.02	3
Net interest margin[(a)(b)]	**3.21**	3.01	7	**3.19**	3.01	6
Net interest rate spread [(a)(b)]	**2.86**	2.75	4	**2.86**	2.77	3

Efficiency[(a)(b)]		**58.7**		63.4	(7)		**56.7**	65.4	(13)
Credit Quality									
Net losses charged-off	$	**94**		64	47	$	**175**	153	14
Net losses charged-off as a percent of average portfolio loans and leases		**0.41**	%	0.28	46		**0.38** %	0.34	12
ALLL as a percent of portfolio loans and leases		**1.17**		1.34	(13)		**1.17**	1.34	(13)
Allowance for credit losses as a percent of portfolio loans and leases[(c)]		**1.31**		1.52	(14)		**1.31**	1.52	(14)
Nonperforming portfolio assets as a percent of portfolio loans and leases and OREO		**0.52**		0.72	(28)		**0.52**	0.72	(28)
Average Balances									
Loans and leases, including held for sale	$	**93,232**		92,653	1	$	**93,051**	92,721	-
Total securities and other short-term investments		**34,935**		33,481	4		**34,806**	33,329	4
Total assets		**141,529**		140,344	1		**141,547**	140,243	1
Transaction deposits[(d)]		**97,574**		95,825	2		**97,298**	96,419	1
Core deposits[(e)]		**101,592**		99,570	2		**101,235**	100,205	1
Wholesale funding[(f)]		**20,464**		20,665	(1)		**20,511**	19,900	3
Bancorp shareholders equity		**16,108**		16,615	(3)		**16,209**	16,522	(2)
Regulatory Capital and Liquidity Ratios									
CET1 capital[(g)]		**10.91**	%	10.63	3		**10.91** %	10.63	3
Tier I risk-based capital[(g)]		**12.02**		11.76	2		**12.02**	11.76	2
Total risk-based capital[(g)]		**15.21**		15.22	-		**15.21**	15.22	-
Tier I leverage		**10.24**		10.07	2		**10.24**	10.07	2
Modified LCR		**116**		115	1		**116**	115	1

(a) *Amounts presented on an FTE basis. The FTE adjustment for the three months ended* ***June 30, 2018*** *and 2017 was* ***$4*** *and $6, respectively, and for the six months ended* ***June 30, 2018*** *and 2017 was* ***$7*** *and $12, respectively.*

(b) *These are non-GAAP measures. For further information, refer to the Non-GAAP Financial Measures section of MD&A.*

(c) *The allowance for credit losses is the sum of the ALLL and the reserve for unfunded commitments.*

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

(e) *Includes transaction deposits and other time deposits.*

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

(g) *Under the U.S. banking agencies Basel III Final Rule, assets and credit equivalent amounts of off-balance sheet exposures are calculated according to the standardized approach for risk-weighted assets. The resulting values are added together in the Bancorp s total risk-weighted assets.*

(h) *Excludes unrealized gains and losses.*

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

OVERVIEW

Fifth Third Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At June 30, 2018, the Bancorp had $140.7 billion in assets and operated 1,158 full-service banking centers and 2,458 Fifth Third branded ATMs in ten states throughout the Midwestern and Southeastern regions of the U.S. The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Wealth and Asset Management. The Bancorp also has an approximate 3.3% interest in Vantiv Holding, LLC. The carrying value of the Bancorp s investment in Vantiv Holding, LLC was $426 million at June 30, 2018.

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 as well as the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2017. Each of these items could have an impact on the Bancorp s financial condition, results of operations and cash flows. In addition, refer to the Glossary of Abbreviations and Acronyms in this report for a list of terms included as a tool for the reader of this quarterly report on Form 10-Q. The abbreviations and acronyms identified therein are used throughout this MD&A, as well as the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements.

Net interest income, net interest margin, net interest rate spread and the efficiency ratio are presented in MD&A on an FTE basis. The FTE basis adjusts for the tax-favored status of income from certain loans and securities held by the Bancorp that are not taxable for federal income tax purposes. The Bancorp believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts. The FTE basis for presenting net interest income is a non-GAAP measure. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

The Bancorp s revenues are dependent on both net interest income and noninterest income. For the three months ended June 30, 2018, net interest income on an FTE basis and noninterest income provided 58% and 42% of total revenue, respectively. For the six months ended June 30, 2018, net interest income on an FTE basis and noninterest income provided 55% and 45% of total revenue, respectively. The Bancorp derives the majority of its revenues within the U.S. from customers domiciled in the U.S. Revenue from foreign countries and external customers domiciled in foreign countries was immaterial to the Condensed Consolidated Financial Statements for both the three and six months ended June 30, 2018. 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 of MD&A, 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, other 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 loss on its loan and lease portfolio, as a result of changing expected cash flows caused by borrower credit events, such as loan defaults and inadequate collateral.

Noninterest income is derived from service charges on deposits, wealth and asset management revenue, corporate banking revenue, card and processing revenue, mortgage banking net revenue, net securities gains or losses and other noninterest income. Noninterest expense includes personnel costs, net occupancy expense, technology and communication costs, equipment expense, card and processing expense and other noninterest expense.

Vantiv, Inc. and Vantiv Holding, LLC Transactions

On January 16, 2018, Vantiv, Inc. completed its previously announced acquisition of Worldpay Group plc. with the resulting combined company named Worldpay, Inc. As a result of this transaction, the Bancorp recognized a gain of $414 million in other noninterest income during the first quarter of 2018 associated with the dilution in its ownership interest in Vantiv Holding, LLC from approximately 8.6% to approximately 4.9%.

On June 27, 2018, the Bancorp completed the sale of 5 million shares of Class A common stock of Worldpay, Inc., formerly Vantiv, Inc. The Bancorp had previously received these Class A shares in exchange for Class B Units of Vantiv Holding, LLC. The Bancorp recognized a gain of $205 million related to the sale. As a result of the sale, the Bancorp beneficially owns approximately 3.3% of Worldpay s equity through its ownership of approximately 10.3 million Class B Units. The Bancorp s remaining interest in Vantiv Holding, LLC of $426 million continues to be accounted for as an equity method investment given the nature of Vantiv Holding, LLC s structure as a limited liability company and contractual arrangements between Vantiv Holding, LLC and the Bancorp.

GS Holdings Transactions

In May 2018, GreenSky, Inc. launched an IPO and issued 38 million shares of Class A common stock for a valuation of $23 per share. In connection with this IPO, the Bancorp s investment in GreenSky, LLC, which was comprised of 252,550 membership units, was converted to 2,525,498 units of the newly formed GreenSky Holdings, LLC (GS Holdings), representing a 1.4% interest in GS Holdings. The Bancorp s units in GS Holdings are exchangeable on a one-to-one basis for Class A common stock or cash after the initial 180-day lock-up period expires.

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

At the time of the IPO, the Bancorp recognized a $16 million gain on its investment in GreenSky, LLC, which was included in other noninterest income in the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018. At June 30, 2018, the investment in GS Holdings was $53 million, which was included in equity securities in the Condensed Consolidated Balance Sheets.

Accelerated Share Repurchase Transactions

During the six months ended June 30, 2018, the Bancorp entered into or settled accelerated share repurchase transactions. As part of these transactions, the Bancorp entered into forward contracts in which the final number of shares delivered at settlement was based generally on a discount to the average daily volume weighted-average price of the Bancorp s common stock during the term of the repurchase agreements. For more information on the accelerated share repurchase program, refer to Note 14 of the Notes to Condensed Consolidated Financial Statements. For a summary of the Bancorp s accelerated share repurchase transactions that were entered into or settled during the six months ended June 30, 2018, refer to Table 2.

TABLE 2: Summary of Accelerated Share Repurchase Transactions

Repurchase Date	Amount ($ in millions)	Shares Repurchased on Repurchase Date	Shares Received from Forward Contract Settlement	Total Shares Repurchased	Settlement Date
December 19, 2017	$ 273	7,727,273	824,367	8,551,640	March 19, 2018
February 12, 2018	318	8,691,318	1,015,731	9,707,049	March 26, 2018
May 25, 2018	235	6,402,244	1,172,122	7,574,366	June 15, 2018

Senior Notes Offering

On March 14, 2018, the Bancorp issued and sold $650 million of 3.95% senior fixed-rate notes, with a maturity of ten years, due on March 14, 2028. These notes will be redeemable by the Bancorp, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

On June 5, 2018, the Bancorp issued and sold $250 million of senior floating-rate notes, with a maturity of three years, due on June 4, 2021. Interest on the floating-rate notes is 3-month LIBOR plus 47 bps. These notes will be redeemable, in whole or in part, on or after the date that is 30 days prior to the maturity date at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

2018 Branch Optimization Plan

Customer interactions and service and sales activity in Branch Banking continue to evolve with changing demographics and technology applications. Customers are increasingly utilizing digital tools to interact with their financial institutions in conducting their transactions while still utilizing physical branches for consultations and new product and service initiation. During the past three years, these developments and other business strategies led to a net decrease of 141 in the number of retail branches, or 11% of the Bancorp s total branch count, through consolidations and sales.

The Bancorp continues to evaluate its retail network distribution in light of changes in customer behavior while developing new analytical tools that provide enhanced capabilities to optimize the profitability and growth potential of branches. In slower growth mature markets these developments enable the Bancorp to achieve efficiencies through well-executed branch consolidations without materially impacting deposit flows and/or revenue growth while maintaining the service quality standards. While continuing to evaluate such actions, the Bancorp is also focused on achieving higher retail household and deposit growth in other parts of its footprint mainly in markets that exhibit faster economic growth and where the Bancorp has significant opportunities to capture higher market share. To that extent, based on the strategic business evaluation that was performed during the second quarter of 2018, over the next 2-3 years, as part of the 2018 Branch Optimization Plan, the Bancorp plans to close between 100-125 branches in more mature markets and open between 100-125 new branches in higher growth markets where the Bancorp already has a strong and high performing retail branch presence. With the existing local presence and familiarity with the customer demographics, and with newly developed analytical tools, the Bancorp expects to achieve higher growth rates as a result of these actions.

As of June 30, 2018, the Bancorp had identified 29 specific branches for closure under the 2018 Branch Optimization Plan with these closures expected to be completed prior to December 31, 2018. The Bancorp expects to identify the remaining branches to be closed under the 2018 Branch Optimization Plan over the next 12 to 18 months. Additionally, the Bancorp has elected to sell 21 parcels of land which had previously been held for future branch expansion.

The adoption of the 2018 Branch Optimization Plan during the second quarter of 2018 required the Bancorp to perform assessments of the recoverability of the long-lived assets for which the Bancorp believes that it is more likely than not that the assets will be disposed of significantly before the end of their previously estimated useful lives. As a result, during the second quarter of 2018 the Bancorp recognized impairment losses of $33 million associated with these lower of cost or market adjustments in other noninterest income in the Condensed Consolidated Statements of Income. For further information about the 2018 Branch Optimization plan, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements.

Earnings Summary

The Bancorp s net income available to common shareholders for the second quarter of 2018 was $563 million, or $0.80 per diluted share, which was net of $23 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the second quarter of 2017 was $344 million, or $0.45 per diluted share, which was net of $23 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the six months ended June 30, 2018 was $1.3 billion, or $1.77 per diluted share, which was net of $38 million in preferred stock dividends. For the six months ended June 30, 2017, the Bancorp s net income available to common shareholders was $634 million, or $0.83 per diluted share, which was net of $38 million in preferred stock dividends.

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

Net interest income on an FTE basis (non-GAAP) was $1.0 billion and $2.0 billion for the three and six months ended June 30, 2018, respectively, an increase of $79 million and $139 million compared to the same periods in the prior year. Net interest income was positively impacted by increases in yields on average loans and leases and increases in average taxable securities for the three and six months ended June 30, 2018 compared to the same periods in the prior year. Additionally, net interest income was positively impacted by the decisions of the FOMC to raise the target range of the federal funds rate 25 bps in December 2017, March 2018 and June 2018. These positive impacts were partially offset by increases in the rates paid on average interest-bearing core deposits and average long-term debt for both the three and six months ended June 30, 2018 compared to the same periods in the prior year. Net interest margin on an FTE basis (non-GAAP) was 3.21% and 3.19% for the three and six months ended June 30, 2018, respectively compared to 3.01% for both periods in the prior year.

Noninterest income increased $179 million for the three months ended June 30, 2018 compared to the same period in the prior year primarily due to increases in other noninterest income and corporate banking revenue. Other noninterest income increased $165 million during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 primarily due to the gain on sale of Worldpay, Inc. shares, partially offset by an increase in the net losses on disposition and impairment of bank premises and equipment and a reduction in the equity method income from the Bancorp s interest in Vantiv Holding, LLC. Corporate banking revenue increased $19 million for the three months ended June 30, 2018 compared to the same period in the prior year primarily due to increases in institutional sales revenue, contract revenue from commercial customer derivatives and foreign exchange fees, partially offset by a decrease in letter of credit fees.

Noninterest income increased $565 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 primarily due to increases in other noninterest income and corporate banking revenue. Other noninterest income increased $548 million during the six months ended June 30, 2018 compared to the same period in the prior year primarily due to the gain related to Vantiv, Inc s acquisition of Worldpay Group plc. that was recognized in the first quarter of 2018 and the aforementioned gain on sale of Worldpay, Inc. shares, partially offset by an increase in the net losses on disposition and impairment of bank premises and equipment, an increase in the loss on the swap associated with the sale of Visa, Inc. Class B Shares and reduction in the equity method income from the Bancorp s interest in Vantiv Holding, LLC. Corporate banking revenue increased $33 million during the six months ended June 30, 2018 compared to the same period in the prior year primarily due to increases in lease remarketing fees, institutional sales revenue, contract revenue from commercial customer derivatives and foreign exchange fees, partially offset by decreases in business lending fees and letter of credit fees.

Noninterest expense increased $80 million for the three months ended June 30, 2018 compared to the same period in the prior year primarily due to increases in personnel costs and technology and communications expense. Personnel costs increased $66 million for the three months ended June 30, 2018 compared to the same period in the prior year driven by an increase in base compensation, variable compensation, long-term incentive compensation and severance costs. Technology and communications expense increased $10 million for the three months ended June 30, 2018 compared to the same period in the prior year driven primarily by increased investment in regulatory, compliance and growth initiatives.

Noninterest expense increased $140 million for the six months ended June 30, 2018 compared to the same period in the prior year primarily due to increases personnel costs, technology and communications expense and other noninterest expense. Personnel costs increased $102 million for the six months ended June 30, 2018 compared to the same period in the prior year driven by an increase in base compensation, variable compensation, long-term incentive compensation and severance costs. Technology and communications expense increased $19 million for the six months ended June 30, 2018 compared to the same period in the prior year driven primarily by increased investment in regulatory, compliance and growth initiatives. Other noninterest expense increased $17 million for the six months ended June 30, 2018 compared to the same period in the prior year primarily due to increases in the impairment on affordable housing investments, marketing expense and donations expense, partially offset by an increase in the benefit for the reserve for unfunded commitments.

For more information on net interest income, noninterest income and noninterest expense refer to the Statements of Income Analysis section of MD&A.

Credit Summary

The provision for loan and lease losses was $33 million and $56 million for the three and six months ended June 30, 2018, respectively, compared to $52 million and $126 million for the comparable periods in 2017. Net losses charged-off as a percent of average portfolio loans and leases increased to 0.41% during the three months ended June 30, 2018 compared to 0.28% during the same period in the prior year and increased to 0.38% for the six months ended June 30, 2018 compared to 0.34% for the same period in the prior year. At June 30, 2018, nonperforming portfolio assets as a percent of portfolio loans and leases and OREO decreased to 0.52% compared to 0.53% at December 31, 2017. For further discussion on credit quality refer to the Credit Risk Management subsection of the Risk Management section of MD&A.

Capital Summary

The Bancorp s capital ratios exceed the well-capitalized guidelines as defined by the PCA requirements of the U.S. banking agencies. As of June 30, 2018, as calculated under the Basel III standardized approach, the CET1 capital ratio was 10.91%, the Tier I risk-based capital ratio was 12.02%, the Total risk-based capital ratio was 15.21% and the Tier I leverage ratio was 10.24%.

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

NON-GAAP FINANCIAL MEASURES

The following are non-GAAP measures which provide useful insight to the reader of the Condensed Consolidated Financial Statements but should be supplemental to primary U.S. GAAP measures and should not be read in isolation or relied upon as a substitute for the primary U.S. GAAP measures.

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.

The following table reconciles the non-GAAP financial measures of net interest income on an FTE basis, interest income on an FTE basis, net interest margin, net interest rate spread and the efficiency ratio to U.S. GAAP:

TABLE 3: Non-GAAP Financial Measures - Financial Measures and Ratios on an FTE basis

($ in millions)		For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Net interest income (U.S. GAAP)	$	**1,020**	939	**2,016**	1,872
Add: FTE adjustment		**4**	6	**7**	12
Net interest income on an FTE basis (1)	$	**1,024**	945	**2,023**	1,884
Net interest income on an FTE basis (annualized) (2)		**4,107**	3,790	**4,080**	3,768
Interest income (U.S. GAAP)	$	**1,269**	1,106	**2,474**	2,192
Add: FTE adjustment		**4**	6	**7**	12
Interest income on an FTE basis	$	**1,273**	1,112	**2,481**	2,204
Interest income on an FTE basis (annualized) (3)		**5,106**	4,460	**5,003**	4,445
Interest expense (annualized) (4)	$	**999**	670	**924**	645
Noninterest income (5)		**743**	564	**1,652**	1,087
Noninterest expense (6)		**1,037**	957	**2,083**	1,943
Average interest-earning assets (7)		**128,167**	126,134	**127,857**	126,050
Average interest-bearing liabilities (8)		**89,222**	85,320	**88,419**	85,106
Ratios:					
Net interest margin on an FTE basis (2) / (7)		**3.21** %	3.01	**3.19**	3.01
Net interest spread on an FTE basis (3) / (7) - (4) /		**2.86**	2.75	**2.86**	2.77

(8)				
Efficiency ratio on an FTE basis (6) / (1) + (5)	**58.7**	63.4	**56.7**	65.4

The Bancorp believes return on average tangible common equity is an important measure for comparative purposes with other financial institutions, but is not defined under U.S. GAAP, and therefore is considered a non-GAAP financial measure. This measure is useful for evaluating the performance of a business as it calculates the return available to common shareholders without the impact of intangible assets and their related amortization.

The following table reconciles the non-GAAP financial measure of return on average tangible common equity to U.S. GAAP:

TABLE 4: Non-GAAP Financial Measures - Return on Average Tangible Common Equity

($ in millions)		For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Net income available to common shareholders (U.S. GAAP)	$	**563**	344	**1,252**	634
Add: Intangible amortization, net of tax		**1**	-	**2**	1
Tangible net income available to common shareholders	$	**564**	344	**1,254**	635
Tangible net income available to common shareholders (annualized) (1)		**2,262**	1,380	**2,529**	1,270
Average Bancorp shareholders equity (U.S. GAAP)	$	**16,108**	16,615	**16,209**	16,522
Less: Average preferred stock		**(1,331)**	(1,331)	**(1,331)**	(1,331)
Average goodwill		**(2,462)**	(2,424)	**(2,458)**	(2,420)
Average intangible assets		**(30)**	(18)	**(28)**	(14)
Average tangible common equity (2)	$	**12,285**	12,842	**12,392**	12,757
Return on average tangible common equity (1) / (2)		**18.4 %**	10.7	**20.4**	10.0

The Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio and tangible common equity ratio, in addition to capital ratios defined by the U.S. banking agencies. These calculations are intended to complement the capital ratios defined by the U.S. banking agencies 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. The Bancorp encourages readers to consider its Condensed Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

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

The following table reconciles non-GAAP capital ratios to U.S. GAAP:

TABLE 5: Non-GAAP Financial Measures - Capital Ratios

As of ($ in millions)		**June 30, 2018**	December 31, 2017
Total Bancorp Shareholders Equity (U.S. GAAP)	$	**16,232**	16,365
Less: Preferred stock		**(1,331)**	(1,331)
Goodwill		**(2,462)**	(2,445)
Intangible assets		**(30)**	(27)
AOCI		**552**	(73)
Tangible common equity, excluding unrealized gains / losses (1)		**12,961**	12,489
Add: Preferred stock		**1,331**	1,331
Tangible equity (2)	$	**14,292**	13,820
Total Assets (U.S. GAAP)	$	**140,695**	142,193
Less: Goodwill		**(2,462)**	(2,445)
Intangible assets		**(30)**	(27)
AOCI, before tax		**699**	(92)
Tangible assets, excluding unrealized gains / losses (3)	$	**138,902**	139,629
Ratios:			
Tangible equity as a percentage of tangible assets (2) / (3)		**10.29 %**	9.90
Tangible common equity as a percentage of tangible assets (1) / (3)		**9.33**	8.94

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RECENT ACCOUNTING STANDARDS

Note 3 of the Notes to Condensed Consolidated Financial Statements provides a discussion of the significant new accounting standards applicable to the Bancorp and the expected impact of significant accounting standards issued, but not yet required to be adopted.

CRITICAL ACCOUNTING POLICIES

The Bancorp s Condensed Consolidated Financial Statements are prepared in accordance with U.S. GAAP. Certain accounting policies require management to exercise judgment in determining methodologies, economic assumptions and estimates that may materially affect the Bancorp s financial position, 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, goodwill and legal contingencies. These accounting policies are discussed in detail in the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to the valuation techniques or models during the six months ended June 30, 2018.

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

STATEMENTS OF INCOME ANALYSIS

Net Interest Income

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

Tables 6 and 7 present the components of net interest income, net interest margin and net interest rate spread for the three and six months ended June 30, 2018 and 2017, as well as the relative impact of changes in the balance sheet and changes in interest rates on net interest income. Nonaccrual loans and leases and loans and leases 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 included in other assets.

Net interest income on an FTE basis (non-GAAP) was $1.0 billion and $2.0 billion for the three and six months ended June 30, 2018, respectively, an increase of $79 million and $139 million compared to the same periods in the prior year. Net interest income was positively impacted by an increase in yields on average loans and leases of 56 bps and 49 bps for the three and six months ended June 30, 2018, respectively and increases in average taxable securities of $1.3 billion for both the three and six months ended June 30, 2018 compared to the same periods in the prior year. Additionally, net interest income was positively impacted by the decisions of the FOMC to raise the target range of the federal funds rate 25 bps in December 2017, March 2018 and June 2018. These positive impacts were partially offset by increases in the rates paid on average interest-bearing core deposits and average long-term debt for both the three and six months ended June 30, 2018 compared to the same periods in the prior year. The rates paid on average interest-bearing core deposits increased 31 bps and 25 bps, respectively, for the three and six months ended June 30, 2018 compared to the same periods in the prior year. The rates paid on average long-term debt increased 35 bps and 27 bps for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year.

Net interest rate spread on an FTE basis (non-GAAP) was 2.86% during both the three and six months ended June 30, 2018 compared to 2.75% and 2.77% in the same periods in the prior year. Yields on average interest-earning assets increased 44 bps and 38 bps for the three and six months ended June 30, 2018, respectively, partially offset by a 33 bps and 29 bps increase in rates paid on average interest-bearing liabilities for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year.

Net interest margin on an FTE basis (non-GAAP) was 3.21% and 3.19% for the three and six months ended June 30, 2018, respectively, compared to 3.01% for both the three and six months ended June 30, 2017. The increase for both periods was driven primarily by the previously mentioned increases in the net interest rate spread partially offset by decreases in average free funding balances. The decreases in average free funding balances for both periods were driven by a decrease in average demand deposits of $2.1 billion and $1.7 billion for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year.

Interest income on an FTE basis from loans and leases (non-GAAP) increased $136 million and $232 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year. The increases were primarily due to the aforementioned increases in yields on average loans and leases, as well as increases in the volume of average other consumer loans. For more information on the Bancorp s loan and lease portfolio, refer to the Loans and Leases subsection of the Balance Sheet Analysis section of MD&A. Interest income from investment securities and other short-term investments increased $25 million and $45 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year primarily as a result of the aforementioned increases in average taxable securities.

Interest expense on core deposits increased $56 million and $91 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year. The increases were primarily due to increases in the cost of average interest-bearing core deposits to 65 bps and 58 bps for the three and six months ended June 30, 2018, respectively, from 34 bps and 33 bps for the three and six months ended June 30, 2017, respectively. The increases in the cost of average interest-bearing core deposits for both periods were primarily due to increases in the rates paid on average interest checking deposits and average money market deposits. Refer to the Deposits subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp s deposits.

Interest expense on average wholesale funding increased $26 million and $47 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year primarily due to the aforementioned increases in the rates paid on average long-term debt coupled with increases in average long-term debt. Refer to the Borrowings subsection of the Balance Sheet Analysis section of MD&A for additional information on the Bancorp s borrowings. During both the three and six months ended June 30, 2018, average wholesale funding represented 23% of average interest-bearing liabilities compared to 24% and 23% during the three and six months ended June 30, 2017, respectively. 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 subsection of the Risk Management section of MD&A.

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

TABLE 6: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE Basis

For the three months ended	**June 30, 2018**			June 30, 2017			Attribution of Change in Net Interest Income[(a)]		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets:									
Interest-earning assets:									
Loans and leases:[(b)]									
Commercial and industrial loans	$ **42,327**	**449**	**4.26%**	$ 41,656	374	3.60%	$ 6	69	75
Commercial mortgage loans	**6,521**	**72**	**4.43**	6,861	63	3.65	(4)	13	9
Commercial construction loans	**4,743**	**59**	**4.94**	4,306	43	4.01	5	11	16
Commercial leases	**3,847**	**27**	**2.82**	4,039	27	2.73	(1)	1	-
Total commercial loans and leases	**57,438**	**607**	**4.24**	56,862	507	3.57	6	94	100
Residential mortgage loans	**16,213**	**144**	**3.56**	16,024	141	3.54	2	1	3
Home equity	**6,672**	**81**	**4.85**	7,385	77	4.20	(7)	11	4
Automobile loans	**8,968**	**73**	**3.26**	9,410	67	2.87	(3)	9	6
Credit card	**2,221**	**66**	**11.96**	2,080	57	10.95	4	5	9
Other consumer loans	**1,720**	**29**	**6.75**	892	15	6.63	14	-	14
Total consumer loans	**35,794**	**393**	**4.40**	35,791	357	4.01	10	26	36
Total loans and leases	$ **93,232**	**1,000**	**4.30%**	$ 92,653	864	3.74%	$ 16	120	136
Securities:									
Taxable	**33,380**	**266**	**3.20**	32,092	244	3.05	10	12	22
Exempt from income taxes[(b)]	**81**	**1**	**4.03**	68	1	5.10	-	-	-
Other short-term investments	**1,474**	**6**	**1.62**	1,321	3	0.99	1	2	3
Total interest-earning	$ **128,167**	**1,273**	**3.98%**	$ 126,134	1,112	3.54%	$ 27	134	161

assets									
Cash and due from banks	**2,179**			2,175					
Other assets	**12,320**			13,272					
Allowance for loan and lease losses	**(1,137)**			(1,237)					
Total assets	**$ 141,529**			$ 140,344					
Liabilities and Equity:									
Interest-bearing liabilities:									
Interest checking deposits	**$ 28,715**	**55**	**0.76%**	$ 26,014	25	0.38%	$ 3	27	30
Savings deposits	**13,618**	**3**	**0.10**	14,238	2	0.06	-	1	1
Money market deposits	**22,036**	**39**	**0.71**	20,278	17	0.34	2	20	22
Foreign office deposits	**371**	**1**	**0.45**	380	-	0.18	1	-	1
Other time deposits	**4,018**	**13**	**1.34**	3,745	11	1.23	1	1	2
Total interest-bearing core deposits	**68,758**	**111**	**0.65**	64,655	55	0.34	7	49	56
Certificates $100,000 and over	**2,155**	**7**	**1.35**	2,623	9	1.36	(2)	-	(2)
Other deposits	**198**	**1**	**1.80**	264	1	0.98	(1)	1	-
Federal funds purchased	**1,080**	**5**	**1.76**	311	1	0.94	3	1	4
Other short-term borrowings	**2,452**	**11**	**1.84**	4,194	10	0.93	(6)	7	1
Long-term debt	**14,579**	**114**	**3.11**	13,273	91	2.76	11	12	23
Total interest-bearing liabilities	**$ 89,222**	**249**	**1.12%**	$ 85,320	167	0.79%	$ 12	70	82
Demand deposits	**32,834**			34,915					
Other liabilities	**3,345**			3,467					
Total liabilities	**$ 125,401**			$ 123,702					
Total equity	**$ 16,128**			$ 16,642					
Total liabilities and equity	**$ 141,529**			$ 140,344					
Net interest income (FTE)[(c)]		**$ 1,024**			$ 945		$ 15	64	79
Net interest margin (FTE)[(c)]			**3.21%**			3.01%			
Net interest rate spread (FTE)[(c)]			**2.86**			2.75			
			69.61			67.64			

Interest-bearing liabilities to interest-earning assets	

(a) Changes in interest not solely due to volume or yield/rate are allocated in proportion to the absolute dollar amount of change in volume and yield/rate.

(b) The FTE adjustments included in the above table were ***$4*** *and $6 for the three months ended* ***June 30, 2018*** *and 2017, respectively.*

(c) Net interest income (FTE), net interest margin (FTE) and net interest rate spread (FTE) are non-GAAP measures. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

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

TABLE 7: Condensed Average Balance Sheets and Analysis of Net Interest Income on an FTE Basis

For the six months ended	June 30, 2018			June 30, 2017			Attribution of Change in Net Interest Income[a]		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets:									
Interest-earning assets:									
Loans and leases:[b]									
Commercial and industrial loans	**$ 42,064**	**858**	**4.11%**	$ 41,773	732	3.53%	$ 5	121	126
Commercial mortgage loans	**6,555**	**140**	**4.32**	6,903	123	3.60	(7)	24	17
Commercial construction loans	**4,707**	**111**	**4.77**	4,147	80	3.89	12	19	31
Commercial leases	**3,903**	**54**	**2.80**	3,972	54	2.71	(2)	2	-
Total commercial loans and leases	**57,229**	**1,163**	**4.10**	56,795	989	3.51	8	166	174
Residential mortgage loans	**16,150**	**287**	**3.58**	15,912	280	3.55	5	2	7
Home equity	**6,780**	**159**	**4.74**	7,482	152	4.09	(16)	23	7
Automobile loans	**9,016**	**143**	**3.19**	9,597	135	2.84	(8)	16	8
Credit card	**2,223**	**134**	**12.16**	2,111	125	11.95	7	2	9
Other consumer loans	**1,653**	**54**	**6.67**	824	27	6.57	27	-	27
Total consumer loans	**35,822**	**777**	**4.38**	35,926	719	4.04	15	43	58
Total loans and leases	**$ 93,051**	**1,940**	**4.21%**	$ 92,721	1,708	3.72%	$ 23	209	232
Securities:									
Taxable	**33,257**	**529**	**3.21**	31,954	488	3.08	21	20	41
Exempt from income taxes[b]	**77**	**1**	**2.79**	61	2	5.41	-	(1)	(1)
Other short-term investments	**1,472**	**11**	**1.50**	1,314	6	0.86	-	5	5
Total interest-earning assets	**$ 127,857**	**2,481**	**3.91%**	$ 126,050	2,204	3.53%	$ 44	233	277
Cash and due from banks	**2,177**			2,190					
Other assets	**12,679**			13,248					
Allowance for loan and lease losses	**(1,166)**			(1,245)					
Total assets	**$ 141,547**			$ 140,243					
Liabilities and Equity:									
Interest-bearing liabilities:									
Interest checking deposits	**$ 28,560**	**99**	**0.70%**	$ 26,385	45	0.34%	$ 4	50	54
Savings deposits	**13,582**	**6**	**0.08**	14,178	4	0.05	-	2	2
Money market deposits	**21,397**	**66**	**0.62**	20,440	34	0.33	1	31	32
Foreign office deposits	**432**	**1**	**0.27**	417	-	0.15	1	-	1
Other time deposits	**3,937**	**25**	**1.30**	3,786	23	1.23	1	1	2
Total interest-bearing core deposits	**67,908**	**197**	**0.58**	65,206	106	0.33	7	84	91

Certificates $100,000 and over	**2,220**	**16**	**1.42**	2,601	17	1.36	(2)	1	(1)
Other deposits	**288**	**2**	**1.57**	213	1	0.85	-	1	1
Federal funds purchased	**887**	**7**	**1.63**	474	2	0.78	2	3	5
Other short-term borrowings	**2,438**	**19**	**1.60**	3,050	12	0.81	(3)	10	7
Long-term debt	**14,678**	**217**	**2.98**	13,562	182	2.71	16	19	35
Total interest-bearing liabilities	**$ 88,419**	**458**	**1.05%**	$ 85,106	320	0.76%	$ 20	118	138
Demand deposits	**33,327**			34,999					
Other liabilities	**3,571**			3,589					
Total liabilities	**$ 125,317**			$ 123,694					
Total equity	**$ 16,230**			$ 16,549					
Total liabilities and equity	**$ 141,547**			$ 140,243					
Net interest income (FTE)[(c)]		**$ 2,023**			$ 1,884		$ 24	115	139
Net interest margin (FTE)[(c)]			**3.19%**			3.01%			
Net interest rate spread (FTE)[(c)]			**2.86**			2.77			
Interest-bearing liabilities to interest-earning assets			**69.15**			67.52			

(a) Changes in interest not solely due to volume or yield/rate are allocated in proportion to the absolute dollar amount of change in volume and yield/rate.

*(b) The FTE adjustments included in the above table were **$7** and $12 for the six months ended **June 30, 2018** and 2017, respectively.*

(c) Net interest income (FTE), net interest margin (FTE) and net interest rate spread (FTE) are non-GAAP measures. For further information, refer to the Non-GAAP Financial Measures section of MD&A.

Provision for Loan and Lease Losses

The Bancorp provides as an expense an amount for probable loan and lease losses within the loan and lease portfolio that is based on factors previously discussed in the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2017. 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 and leases actually removed from the Condensed Consolidated Balance Sheets is referred to as a charge-off. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

The provision for loan and lease losses was $33 million and $56 million for the three and six months ended June 30, 2018, respectively, compared to $52 million and $126 million during the same periods in the prior year. The decrease in provision expense for both the three and six months ended June 30, 2018 was primarily due to a decrease in the level of commercial criticized assets combined with overall improved credit quality. The ALLL decreased $119 million from December 31, 2017 to $1.1 billion at June 30, 2018. At June 30, 2018, the ALLL as a percent of portfolio loans and leases decreased to 1.17% compared to 1.30% at December 31, 2017.

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

Refer to the Credit Risk Management subsection of the Risk Management section of MD&A as well as Note 6 of the Notes to Condensed Consolidated Financial Statements for more detailed information on the provision for loan and lease losses, including an analysis of loan and lease portfolio composition, nonperforming assets, net charge-offs and other factors considered by the Bancorp in assessing the credit quality of the loan and lease portfolio and the ALLL.

Noninterest Income

Noninterest income increased $179 million and $565 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year.

The following table presents the components of noninterest income:

TABLE 8: Components of Noninterest Income

	For the three months ended June 30,			For the six months ended June 30,		
($ in millions)	**2018**	2017	% Change	**2018**	2017	% Change
Service charges on deposits	$ **137**	139	(1)	$ **275**	277	(1)
Wealth and asset management revenue	**108**	103	5	**221**	211	5
Corporate banking revenue	**120**	101	19	**208**	175	19
Card and processing revenue	**84**	79	6	**163**	153	7
Mortgage banking net revenue	**53**	55	(4)	**109**	108	1
Other noninterest income	**250**	85	194	**708**	160	343
Securities (losses) gains, net	**(5)**	-	NM	**(15)**	1	NM
Securities (losses) gains, net - non-qualifying hedges on MSRs	**(4)**	2	NM	**(17)**	2	NM
Total noninterest income	$ **743**	564	32	$ **1,652**	1,087	52

Wealth and asset management revenue

Wealth and asset management revenue increased $5 million and $10 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year. The increase for both the three and six months ended June 30, 2018 compared to the same periods in the prior year was primarily due to increases of $3 million and $8 million, respectively, in private client service fees driven by an increase in assets under management as a result of strong market performance and increased asset production. The Bancorp s trust and registered investment advisory businesses had approximately $368 billion and $330 billion in total assets under care at June 30, 2018 and 2017, respectively, and managed $37 billion and $34 billion in assets for individuals, corporations and not-for-profit organizations at June 30, 2018 and 2017, respectively.

Corporate banking revenue

Corporate banking revenue increased $19 million and $33 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year. The increase for the three months ended June 30, 2018 compared to the same period in the prior year was primarily driven by increases in institutional sales revenue, contract revenue from commercial customer derivatives and foreign exchange fees of $11 million, $5 million and $4 million, respectively. These benefits were partially offset by a decrease in letter of credit fees of $2 million. The increase for the six months ended June 30, 2018 compared to the same period in the prior year was primarily driven by increases in lease remarketing fees, institutional sales revenue, contract revenue from commercial customer derivatives and foreign exchange fees of $26 million, $7 million, $6 million and $5 million, respectively. The increase in lease remarketing fees for the six months ended June 30, 2018 included the impact of a $31 million impairment charge related to certain operating lease assets that was recognized during the first quarter of 2017. These benefits were partially offset by decreases in business lending fees and letter of credit fees of $6 million and $4 million, respectively.

Card and processing revenue

Card and processing revenue increased $5 million and $10 million for the three and six months ended June 30, 2018 compared to the same periods in the prior year. The increases for both the three and six months ended June 30, 2018 compared to the same periods in the prior year were primarily driven by an increase in the number of actively used cards and customer spend volume.

Mortgage banking net revenue

Mortgage banking net revenue decreased $2 million for the three months ended June 30, 2018 and increased $1 million for the six months ended June 30, 2018 compared to the same periods in the prior year.

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The following table presents the components of mortgage banking net revenue:

TABLE 9: Components of Mortgage Banking Net Revenue

($ in millions)		For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Origination fees and gains on loan sales	$	**28**	37	**52**	66
Net mortgage servicing revenue:					
Gross mortgage servicing fees		**54**	49	**106**	97
Net valuation adjustments on MSRs and free-standing derivatives purchased to economically hedge MSRs		**(29)**	(31)	**(49)**	(55)
Net mortgage servicing revenue		**25**	18	**57**	42
Mortgage banking net revenue	$	**53**	55	**109**	108

Origination fees and gains on loan sales decreased $9 million and $14 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year driven by a decrease in originations and lower margins due to the interest rate environment. Residential mortgage loan originations decreased to $2.1 billion and $3.6 billion during the three and six months ended June 30, 2018, respectively, compared to $2.3 billion and $4.2 billion during the same periods in the prior year.

Net mortgage servicing revenue increased $7 million and $15 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in the prior year. The increases for the three and six months ended June 30, 2018 compared to the same periods in the prior year included increases in gross mortgage servicing fees of $5 million and $9 million, respectively, and decreases in net negative valuation adjustments of $2 million and $6 million, respectively. Refer to Table 10 for the components of net valuation adjustments on the MSR portfolio and the impact of the non-qualifying hedging strategy:

TABLE 10: Components of Net Valuation Adjustments on MSRs

($ in millions)		For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio	$	**(16)**	16	**(65)**	15
Changes in fair value:					
Due to changes in inputs or assumptions		**21**	(17)	**78**	(13)
Other changes in fair value		**(34)**	(30)	**(62)**	(57)
Net valuation adjustments on MSR and free-standing derivatives purchased to economically hedge MSRs	$	**(29)**	(31)	**(49)**	(55)

Mortgage rates increased during both the three and six months ended June 30, 2018 which caused modeled prepayment speeds to slow. The fair value of the MSR increased $21 million and $78 million, respectively, due to changes to inputs to the valuation model including prepayment speeds and OAS spread assumptions and decreased $34 million and $62 million, respectively, due to the passage of time, including the impact of regularly scheduled repayments, paydowns and payoffs for the three and six months ended June 30, 2018.

Mortgage rates decreased during both the three and six months ended June 30, 2017 which caused modeled prepayments speeds to increase, which led to fair value adjustments on servicing rights. The fair value of the MSR decreased $17 million and $13 million, respectively, due to changes to inputs to the valuation model including prepayment speeds and OAS spread assumptions and decreased $30 million and $57 million, respectively, due to the passage of time, including the impact of regularly scheduled repayments, paydowns and payoffs for the three and six months ended June 30, 2017.

Further detail on the valuation of MSRs can be found in Note 10 of the Notes to Condensed Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in the valuation of the MSR portfolio. Refer to Note 11 of the Notes to Condensed Consolidated Financial Statements for more information on the free-standing derivatives used to economically hedge the MSR portfolio.

In addition to the derivative positions used to economically hedge the MSR portfolio, the Bancorp acquires various securities as a component of its non-qualifying hedging strategy. The Bancorp recognized net losses of $4 million and $17 million during the three and six months ended June 30, 2018, respectively, and net gains of $2 million during both the three and six months ended June 30, 2017, recorded in securities (losses) gains, net - non-qualifying hedges on MSRs in the Bancorp s Condensed Consolidated Statements of Income.

The Bancorp s total residential mortgage loans serviced at June 30, 2018 and 2017 were $78.5 billion and $78.0 billion, respectively, with $62.2 billion and $61.8 billion, respectively, of residential mortgage loans serviced for others.

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Other noninterest income

The following table presents the components of other noninterest income:

TABLE 11: Components of Other Noninterest Income

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2018**	2017	**2018**	2017
Gain related to Vantiv, Inc. s acquisition of Worldpay Group plc.	$ **-**	-	**414**	-
Gain on sale of Worldpay, Inc. shares	**205**	-	**205**	-
Operating lease income	**22**	24	**45**	49
Private equity investment income	**16**	12	**35**	26
Cardholder fees	**14**	13	**27**	27
BOLI income	**14**	13	**27**	25
Insurance income	**5**	2	**11**	3
Consumer loan and lease fees	**6**	6	**11**	11
Banking center income	**6**	5	**11**	10
Loss on swap associated with the sale of Visa, Inc. Class B Shares	**(10)**	(9)	**(49)**	(22)
Net losses on disposition and impairment of bank premises and equipment	**(33)**	(1)	**(41)**	(2)
Net losses on loan sales	**-**	-	**(1)**	(2)
Equity method (loss) income from interest in Vantiv Holding, LLC	**-**	12	**(1)**	24
Other, net	**5**	8	**14**	11
Total other noninterest income	$ **250**	85	**708**	160

Other noninterest income increased $165 million during the three months ended June 30, 2018 compared to the same period in the prior year primarily due to the gain on sale of Worldpay, Inc. shares, partially offset by an increase in the net losses on disposition and impairment of bank premises and equipment and a reduction in the equity method income from the Bancorp s interest in Vantiv Holding, LLC.

The Bancorp recognized a $205 million gain on the sale of Worldpay, Inc. shares during the three months ended June 30, 2018. For more information, refer to Note 17 of the Notes to Condensed Consolidated Financial Statements. Net losses on disposition and impairment of bank premises and equipment for the three months ended June 30, 2018 included the impact of branch impairment charges of $33 million. For more information, refer to Note 7 of the Notes to Condensed Consolidated Financial Statements. Equity method income from the Bancorp s interest in Vantiv Holding, LLC decreased $12 million for the three months ended June 30, 2018 compared to the same period in the prior year primarily due to a decrease in the Bancorp s ownership percentage in Vantiv Holding, LLC from approximately 17.7% as of June 30, 2017 to approximately 3.3% as of June 30, 2018 and the impact of a reduction in Vantiv Holding, LLC net income for the three months ended June 30, 2018 compared to the same period in the prior year.

Other noninterest income increased $548 million during the six months ended June 30, 2018 compared to the same period in the prior year primarily due to the gain related to Vantiv, Inc s acquisition of Worldpay Group plc. and the gain on sale of Worldpay, Inc. shares, partially offset by an increase in the net losses on disposition and impairment of bank premises and equipment, an increase in the loss on the swap associated with the sale of Visa, Inc. Class B Shares and a reduction in the equity method income from the Bancorp s interest in Vantiv Holding, LLC.

The Bancorp recognized a $414 million gain related to Vantiv, Inc. s acquisition of Worldpay Group plc. during the six months ended June 30, 2018. For more information, refer to Note 17 of the Notes to Condensed Consolidated Financial Statements. The increase for the six months ended June 30, 2018 also included the impact of the previously mentioned $205 million gain on the sale of Worldpay, Inc. shares. Net losses on disposition and impairment of bank premises and equipment for the six months ended June 30, 2018 included the impact of the previously mentioned branch impairment charges of $33 million. During the six months ended June 30, 2018, the Bancorp recognized negative valuation adjustments of $49 million related to the Visa total return swap compared to negative valuation adjustments of $22 million during the six months ended June 30, 2017. The increase from the prior period was attributable to litigation developments and an increase in Visa, Inc. s share price during the six months ended June 30, 2018. For additional information on the valuation of the swap associated with the sale of Visa, Inc. Class B Shares and the related litigation matters, refer to Note 15, Note 16 and Note 21 of the Notes to Condensed Consolidated Financial Statements. Equity method earnings from the Bancorp s interest in Vantiv Holding, LLC decreased $25 million compared to the six months ended June 30, 2017 primarily due to a decrease in the Bancorp s ownership percentage in Vantiv Holding, LLC and the impact of Worldpay, Inc. s acquisition and integration costs.

Noninterest Expense

Noninterest expense increased $80 million for the three months ended June 30, 2018 compared to the same period in the prior year primarily due to increases in personnel costs (salaries, wages and incentives plus employee benefits) and technology and communications expense. Noninterest expense increased $140 million for the six months ended June 30, 2018 compared to the same period in the prior year primarily due to increases personnel costs, technology and communications expense and other noninterest expense.

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The following table presents the components of noninterest expense:

TABLE 12: Components of Noninterest Expense

	For the three months ended June 30,			For the six months ended June 30,		
($ in millions)	**2018**	2017	% Change	**2018**	2017	% Change
Salaries, wages and incentives	$ **471**	397	19	$ **918**	808	14
Employee benefits	**78**	86	(9)	**188**	196	(4)
Net occupancy expense	**74**	70	6	**149**	148	1
Technology and communications	**67**	57	18	**135**	116	