FIFTH THIRD BANCORP
Form 10-Q
August 10, 2009
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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, 2009

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

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

Fifth Third Center

Cincinnati, Ohio 45263

(Address of principal executive offices)

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

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

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

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

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

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

There were 795,313,448 shares of the Registrant s common stock, without par value, outstanding as of June 30, 2009.

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Certifications

This report may contain forward-looking statements about Fifth Third Bancorp and/or the LLC within the meaning of Sections 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and 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 including statements preceded by, followed by or that include the words or phrases such as believes, expects, anticipates, plans, trend, objective, c remain or similar expressions or future or conditional verbs such as will, would, should, could, might, can, may or similar expressio a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) general economic conditions and weakening in the economy, specifically the real estate market, either nationally or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, are less favorable than expected; (2) deteriorating credit quality; (3) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (4) changes in the interest rate environment reduce interest margins; (5) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (6) Fifth Third s ability to maintain required capital levels and adequate sources of funding and liquidity; (7) maintaining capital requirements may limit Fifth Third s operations and potential growth; (8) changes and trends in capital markets; (9) problems encountered by larger or similar financial institutions may adversely affect the banking industry and/or Fifth Third (10) competitive pressures among depository institutions increase significantly; (11) effects of critical accounting policies and judgments; (12) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (13) legislative or regulatory changes or actions, or significant litigation, adversely affect Fifth Third, one or more acquired entities and/or the combined company or the businesses in which Fifth Third, one or more

acquired entities and/or the combined company are engaged; (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) lower than expected gains related to any sale or potential sale of businesses; (21) difficulties in separating Fifth Third Processing Solutions from Fifth Third; (22) 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;(23) ability to secure confidential information through the use of computer systems and telecommunications networks; and (24) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is available in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2008, filed with the United States Securities and Exchange Commission (SEC). Copies of this filing are available at no cost on the SEC s Web site at www.sec.gov or on the Fifth Third s Web site at www.53.com. Fifth Third undertakes no obligation to release revisions to these forward-looking statements or reflect events or circumstances after the date of this report.

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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 certain significant factors that have affected Fifth Third Bancorp s (Bancorp or Fifth Third) financial condition and results of operations during the periods included in the Condensed Consolidated Financial Statements, which are a part of this filing. Reference to the Bancorp incorporates the parent holding company and all consolidated subsidiaries.

TABLE 1: Selected Financial Data

	For the three months ended June 30,			For the six months ended June 30,		
($ in millions, except per share data)	2009	2008	% Change	2009	2008	% Change
Income Statement Data						
Net interest income *(a)*	**$ 836**	$ 744	12	**$ 1,617**	$ 1,570	3
Noninterest income	**2,583**	722	258	**3,280**	1,587	107
Total revenue *(a)*	**3,419**	1,466	133	**4,897**	3,157	55
Provision for loan and lease losses	**1,041**	719	45	**1,814**	1,263	44
Noninterest expense	**1,021**	858	19	**1,984**	1,576	26
Net income (loss)	**882**	(202)	NM	**932**	84	1,006
Net income (loss) available to common shareholders	**856**	(202)	NM	**829**	84	888
Common Share Data						
Earnings per share, basic	**$ 1.35**	(.37)	NM	**$ 1.37**	$ .16	756
Earnings per share, diluted	**1.15**	(.37)	NM	**1.18**	.16	638
Cash dividends per common share	**.01**	.15	(93)	**.02**	.59	(97)
Market value per share	**7.10**	10.18	(30)	**7.10**	10.18	(30)
Book value per share	**12.71**	16.75	(24)	**12.71**	16.75	(24)
Financial Ratios						
Return on assets	**3.05%**	(.72)	NM	**1.60%**	.15	967
Return on average common equity	**41.2**	(8.5)	NM	**20.7**	1.8	1,050
Average equity as a percent of average assets	**10.78**	8.59	25	**10.48**	8.51	23
Tangible equity *(h)*	**9.72**	6.37	53	**9.72**	6.37	53
Tangible common equity *(i)*	**6.55**	5.40	21	**6.55**	5.40	21
Net interest margin *(a)*	**3.26**	3.04	7	**3.16**	3.22	(2)
Efficiency *(a)*	**29.9**	58.6	(49)	**40.5**	49.9	(19)
Credit Quality						
Net losses charged off	**$ 626**	$ 344	82	**$ 1,116**	620	80
Net losses charged off as a percent of average loans and leases	**3.08%**	1.66	86	**2.73%**	1.52	80
Allowance for loan and lease losses as a percent of loans and leases	**4.28**	1.85	131	**4.28**	1.85	131
Allowance for credit losses as a percent of loans and leases *(b)*	**4.57**	1.98	131	**4.57**	1.98	131
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned *(c)(d)*	**3.48**	2.26	54	**3.48**	2.26	54
Average Balances						
Loans and leases, including held for sale	**$ 84,996**	85,212		**$ 85,410**	85,062	
Total securities and other short-term investments	**17,762**	13,363	33	**17,798**	12,980	37
Total assets	**115,878**	112,098	3	**117,272**	111,694	5
Transaction deposits *(e)*	**54,115**	53,763	1	**53,236**	53,610	(1)
Core deposits *(f)*	**68,727**	63,280	9	**67,793**	63,811	6
Wholesale funding *(g)*	**31,369**	35,160	(11)	**33,126**	34,189	(3)
Shareholders equity	**12,490**	9,629	30	**12,288**	9,504	29
Regulatory Capital Ratios						
Tier I capital	**12.90%**	8.51	52	**12.90**	8.51	52

Total risk-based capital	**16.96**	12.15	40	**16.96**	12.15	40
Tier I leverage	**12.17**	9.08	34	**12.17**	9.08	34
Tier I common equity	**6.94**	5.18	35	**6.94**	5.18	35

(a) Amounts presented on a fully taxable equivalent basis. The taxable equivalent adjustments for the three months ended June 30, 2009 and 2008 were $5 million and $6 million, respectively, and for the six months ended June 30, 2009 and 2008 were $10 million and $11 million, respectively.

(b) The allowance for credit losses is the sum of the allowance for loan and lease losses and the reserve for unfunded commitments.

(c) Excludes nonaccrual loans held for sale.

(d) During the first quarter of 2009, the Bancorp modified its nonaccrual policy to exclude consumer troubled debt restructuring (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.

(e) Includes demand, interest checking, savings, money market and foreign office deposits of commercial customers.

(f) Includes transaction deposits plus other time deposits.

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

(h) The tangible equity ratio is calculated as tangible equity (shareholders equity less goodwill, intangible assets and accumulated other comprehensive income) divided by tangible assets (total assets less goodwill, intangible assets and tax effected accumulated other comprehensive income.) For further information, see the Non-Gaap Financial Measures section below.

(i) The tangible common equity ratio is calculated as tangible common equity (shareholders equity less preferred stock, goodwill, intangible assets and accumulated other comprehensive income) divided by tangible assets (defined above.) For further information, see the Non-GAAP Financial Measures section below.

NM: Not meaningful

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

OVERVIEW

This overview of management s discussion and analysis 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.

The Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At June 30, 2009, the Bancorp had $116 billion in assets, operated 16 affiliates with 1,306 full-service banking centers including 99 Bank Mart® locations open seven days a week inside select grocery stores and 2,355 Jeanie® ATMs in the Midwestern and Southeastern regions of the United States. As of June 30, 2009, the Bancorp reports on five business segments: Commercial Banking, Branch Banking, Consumer Lending, Fifth Third Processing Solutions (FTPS) and Investment Advisors.

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. Its affiliate operating model provides a competitive advantage by keeping the decisions close to the customer and by emphasizing individual relationships. Through its affiliate operating model, individual managers from the banking center to the executive level are given the opportunity to tailor financial solutions for their customers.

The Bancorp s revenues are dependent on both net interest income and noninterest income. For the three months ended June 30, 2009, net interest income, on a fully taxable equivalent (FTE) basis, and noninterest income provided 24% and 76% of total revenue, respectively. Excluding the effects of the Processing Business Sale discussed below, net interest income on a FTE basis and noninterest income provided 51% and 49% of total revenue, respectively. 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 weakening economy within the Bancorp s footprint.

Net interest income, net interest margin, net interest rate spread and the efficiency ratio are presented in Management s Discussion and Analysis of Financial Condition and Results of Operations on an FTE basis. The FTE basis adjusts for the tax-favored status of income from certain loans and securities held by the Bancorp that are not taxable for federal income tax purposes. The Bancorp believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

Noninterest income is derived primarily from financial institution and merchant transaction processing fees, card interchange, fiduciary and investment management fees, corporate banking revenue, service charges on deposits and mortgage banking revenue. Noninterest expense is primarily driven by personnel costs and occupancy expenses, in addition to expenses incurred in the processing of credit and debit card transactions for its customers and financial institution and merchant clients.

On June 4, 2009, the Bancorp completed an at-the-market offering resulting in the sale of $1 billion of its common shares. As a result, the Bancorp issued approximately 158 million common shares at an average share price of $6.33. In addition, on June 17, 2009, the Bancorp completed its offer to exchange 2,158.8272 shares of its common stock, no par value, and $8,250 in cash, for each set of 250 validly tendered and accepted depositary shares of its Series G convertible preferred stock. As a result of this exchange, the Bancorp issued approximately 60 million common shares and $230 million in cash for 63% of the outstanding Series G preferred shares. Based upon the difference in the carrying value of the Series G preferred shares and the fair value of the common shares and cash issued, the Bancorp recognized an increase to

net income available to common shareholders of $35 million. For further information regarding the Bancorp s common and preferred stock, see Note 15 of the Notes to Condensed Consolidated Financial Statements.

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

On June 30, 2009, the Bancorp completed the sale (herein the Processing Business Sale) of a majority interest in its merchant acquiring and financial institutions processing businesses. The Processing Business Sale generated a pre-tax gain of $1.8 billion ($1.1 billion after-tax) and increased the Bancorp s tangible common equity (Non-GAAP) and Tier 1 capital by $1.2 billion. For further information regarding the Processing Business Sale, see Note 19 of the Notes to Condensed Consolidated Financial Statements.

On July 16, 2009, Visa Inc. announced it had deposited $700 million into the litigation escrow account. As a result of this funding, the Bancorp recorded its proportional share of $29 million of these additional funds as a reduction to noninterest expense, which will be recognized by the Bancorp in the third quarter of 2009. Additionally, on July 17, 2009 the Bancorp completed the sale of its Visa Inc. Class B shares for $300 million. As part of this transaction the Bancorp entered into a total return swap in which the Bancorp will make or receive payments based on subsequent change in the conversion rate of Class B shares into Class A shares. As a result of this transaction, the Bancorp will recognize a pre-tax gain of $288 million in the third quarter of 2009. The net impact of the recognition of the additional escrow funding and sale of Class B shares will result in a net after-tax benefit of approximately $206 million. For further information regarding the sale of Visa Inc. Class B shares, see Note 20 of the Notes to Condensed Consolidated Financial Statements.

Earnings Summary

During the second quarter of 2009, the Bancorp continued to be affected by the economic slowdown and market disruptions. The Bancorp s net income for the quarter was $882 million. Excluding the effects of the aforementioned Processing Business Sale, the Bancorp s net loss for the quarter was $173 million. Preferred dividends of $26 million for the quarter included $53 million related to the Series F preferred stock held by the U.S. Treasury, $9 million paid to Series G preferred stock holders, partially offset by the $35 million benefit from the conversion of the Series G preferred stock discussed above. Including preferred dividends, the net income available to common shareholders was $856 million in the second quarter of 2009 compared to a net loss of $202 million in the second quarter of 2008. Diluted earnings per share was $1.15 in the second quarter of 2009 compared to a net loss of $.37 per diluted share in the second quarter of 2008.

Net interest income (FTE) increased 12%, from $744 million in the second quarter of 2008 to $836 million in second quarter of 2009. In the second quarter of 2008, net interest income included leveraged lease charges of approximately $130 million due to a projected change in the timing of tax benefits related to certain leveraged lease transactions. Excluding the leveraged lease charges, net interest income recognized in the second quarter of 2009, declined by approximately $38 million, or four percent, largely driven by a shift in deposit mix toward higher priced certificates of deposit (CDs) in the latter part of 2008 and higher interest reversals, partially offset by improved pricing spreads on loan originations. Net interest margin was 3.26% in the second quarter of 2009, an increase of 22 bp from the second quarter of 2008, and a decrease of 31 bp excluding the leveraged lease charges.

Noninterest income increased 258%, from $722 million in the second quarter of 2008 to $2.6 billion in the second quarter of 2009. Excluding the impact of the Processing Business Sale, noninterest income increased 13%, or $97 million, from a year ago due to an increase in mortgage banking revenue, payment processing revenue and gains in the securities portfolio, partially offset by a decrease in investment advisory revenue.

Noninterest expense increased 19%, or $163 million, compared to the second quarter of 2008 driven by higher employee related costs, loan processing expense and the impact of higher deposit insurance assessments including a special assessment of $55 million in the second quarter of 2009.

The Bancorp does not originate subprime mortgage loans, hold credit default swaps or hold asset-backed securities (ABS) backed by subprime mortgage loans in its securities portfolio. However, the Bancorp has exposure to disruptions in the capital markets and weakening economic conditions. The housing markets continued to weaken throughout 2008 and into the second quarter of 2009, particularly in the upper Midwest and Florida. Additionally, economic conditions continued to deteriorate throughout 2008 and into the second quarter of 2009, putting significant stress on the Bancorp s commercial and consumer loan portfolios. Consequently, the provision for loan and lease losses increased to $1 billion for the second quarter of 2009 compared to $719 million for the second quarter of 2008. Net charge-offs as a percent of average loans and leases were 3.08% in the second quarter of 2009 compared to 1.66% in the second quarter of 2008. At June 30, 2009, nonperforming assets as a percent of loans, leases and other assets, including other real estate owned (OREO) and excluding nonaccrual loans held for sale, increased to 3.48% from 2.26% at June 30, 2008. Including $352 million of nonaccrual loans classified as held-for-sale in the second quarter of 2009, total nonperforming assets were $3.2 billion compared with $1.9 billion in the second quarter of 2008.

The Bancorp s capital ratios exceed the well-capitalized guidelines as defined by the Board of Governors of the Federal Reserve System (FRB). As of June 30, 2009, the Tier 1 capital ratio was 12.90%, the Tier 1 leverage ratio was 12.17%, the total risk-based capital ratio was 16.96% and the Tier 1 common equity ratio, a new measure that originated from the Supervisory Capital Assessment Program (SCAP) and defined as tier 1 common equity divided by total risk weighted assets, was 6.94%. These capital ratios were strengthened during the second quarter of 2009 due to the Processing Business Sale, the completed offer to sell $1 billion in common stock, and the completed exchange of Series G preferred stock discussed previously.

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

NON-GAAP FINANCIAL MEASURES

In addition to capital ratios defined by banking regulators, the Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio and tangible common equity ratio. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because generally accepted accounting principles in the United States of America (US GAAP) do not include capital ratio measures, the Bancorp believes there are no comparable US GAAP financial measures to these ratios.

The Bancorp believes these Non-GAAP measures are important because they reflect the level of capital available to withstand unexpected market conditions. Additionally, presentation of these measures allows readers to compare certain aspects of the Bancorp s capitalization to other organizations. However, because there are no standardized definitions for these ratios, the Bancorp s calculations may not be comparable with other organizations, and the usefulness of these measures to investors may be limited. As a result, the Bancorp encourages readers to consider its Condensed Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

The following table reconciles Non-GAAP financial measures to US GAAP as of June 30:

TABLE 2: Non-GAAP Financial Measures

($ in millions)	**2009**	**2008**
Total shareholders equity	**13,700**	10,754
Less:		
Goodwill	**(2,417)**	(3,603)
Intangible assets	**(133)**	(203)
Accumulated other comprehensive income	**(152)**	152
Tangible equity (a)	**10,998**	7,100
Less: Preferred stock	**(3,588)**	(1,082)
Tangible common equity (b)	**7,410**	6,019
Total assets	**115,984**	114,975
Less:		
Goodwill	**(2,417)**	(3,603)
Intangible assets	**(133)**	(203)
Accumulated other comprehensive income, before tax	**(234)**	235
Tangible assets, excluding unrealized gains / losses (c)	**113,200**	111,404
Ratios:		
Tangible equity (a) / (c)	**9.72%**	6.37%
Tangible common equity (b) / (c)	**6.55%**	5.40%

RECENT ACCOUNTING STANDARDS

Note 2 of the Notes to Condensed Consolidated Financial Statements provides a complete discussion of the significant new accounting standards adopted by the Bancorp during 2009 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 accounting principles generally accepted in the United States of America. 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 allowance for loan and lease losses, reserve for unfunded commitments, income taxes, valuation of servicing rights, fair value measurements and goodwill. No material changes have been made during the three months ended June 30, 2009 to the valuation techniques or models described in this Critical Accounting Policies section.

Allowance for Loan and Lease Losses

The Bancorp maintains an allowance to absorb probable loan and lease losses inherent in the portfolio. The allowance is maintained at a level the Bancorp considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectibility and historical loss experience of loans and leases. Credit losses are charged and recoveries are credited to the allowance. 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

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

appropriate level of the allowance, 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.

Larger commercial loans that exhibit probable or observed credit weakness are subject to individual review. 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. The review of individual loans includes those loans that are impaired as provided in Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan. Any allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, the fair value of the underlying collateral or readily observable secondary market values. The Bancorp evaluates the collectibility 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 an established threshold 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 currently utilized for allowance analysis purposes encompasses ten categories.

Homogenous loans and leases, such as consumer installment and residential mortgage, are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks. Allowances are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history by loan category. Historical loss rates for commercial and consumer loans may be adjusted for significant 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 examiners.

The Bancorp s current methodology for determining the allowance for loan and lease losses is based on historical loss rates, current credit grades, specific allocation on impaired commercial credits above specified thresholds and other qualitative adjustments. Allowances on individual loans 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.

Loans acquired by the Bancorp through a purchase business combination are evaluated for credit impairment at acquisition. Reductions to the carrying value of the acquired loans as a result of credit impairment are recorded as an adjustment to goodwill. The Bancorp does not carry over the acquired company s allowance for loan and lease losses, nor does the Bancorp add to its existing allowance for the acquired loans 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 probable losses related to unfunded credit facilities and is included in other liabilities in the Condensed 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 credit grade migration. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the Condensed 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 Condensed Consolidated Statements of Income.

Deferred income tax assets and liabilities are determined using the balance sheet method and are reported in either other assets or accrued taxes, interest and expenses in the Condensed 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 recognizes 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 it is more-likely-than-not.

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

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Condensed 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 12 of the Notes to Condensed 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 servicing rights are stratified into classes based on the financial asset type and interest rates. Fees received for servicing loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in noninterest income in the Condensed Consolidated Statements of Income as loan payments are received. Costs of servicing loans are charged to expense as incurred. For additional information on servicing rights, see Note 7 of the Notes to Condensed Consolidated Financial Statements.

Fair Value Measurements

Effective January 1, 2008, the Bancorp adopted SFAS No. 157, Fair Value Measurements , which provides a framework for measuring fair value under US GAAP. SFAS No. 157 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. SFAS No. 157 addresses the valuation techniques used to measure fair value. These valuation techniques 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.

SFAS No. 157 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 lowest priority to unobservable inputs (Level 3). A financial 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, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

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

The Bancorp measures financial assets and liabilities at fair value in accordance with SFAS No. 157. These measurements include various valuation techniques and models, which involve inputs that are observable, when available, and include the following significant financial instruments: available-for-sale and trading securities, residential mortgage loans held for sale and certain derivatives. The following is a summary of valuation techniques utilized by the Bancorp for its significant financial 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. Such securities would generally be classified within Level 2 of the fair value hierarchy. 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. A significant portion of the Bancorp s available-for-sale securities are agency mortgage-backed securities that are fair valued using a market approach and the Bancorp has determined them to be Level 2 in the fair value hierarchy. A significant portion of the Bancorp s trading securities are variable rate demand notes (VRDNs), that are fair valued using a market approach, and the Bancorp has determined them to be Level 2 in the fair value hierarchy.

Residential mortgage loans held for sale

For residential mortgage loans held for sale, fair value is estimated based upon mortgage backed securities prices and spreads to those prices. Residential mortgage loans held for sale are fair valued using a market approach and the Bancorp has determined them to be Level 2 in the fair value hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange. Most derivative contracts are measured using discounted cash flow or other models that incorporate current market interest rates, credit spreads assigned to the derivative counterparties and other market parameters. Derivative positions that are valued utilizing models that use as their basis readily observable market parameters are classified within Level 2 of the valuation hierarchy. Derivatives that are valued based upon models with significant unobservable market parameters are classified within Level 3 of the valuation hierarchy. A majority of the derivatives are fair valued using an income approach and the Bancorp has determined them to be Level 2 in the fair value hierarchy.

Valuation techniques and parameters used for measuring financial 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 reasonableness.

In addition to the financial assets and liabilities measured at fair value on a recurring basis, the Bancorp measures servicing rights and certain loans and long-lived assets at fair value on a nonrecurring basis. Refer to Note 17 of the Notes to Condensed Consolidated Financial Statements for further information.

Goodwill

Business combinations entered into by the Bancorp typically include the acquisition of goodwill. SFAS No. 142, Goodwill and Other Intangible Assets 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 the guidance of SFAS No. 142. 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 allocates this market-based fair value measurement to 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.

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

Consistent with SFAS No. 142, 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 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 Condensed Consolidated Financial Statements as a result of this assignment process. Refer to Note 5 of the Notes to Condensed Consolidated Financial Statements for further information regarding the Bancorp s goodwill.

STATEMENTS OF INCOME ANALYSIS

Net Interest Income

Net interest income is the interest earned on debt 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 $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 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.

Tables 3 and 4 present the components of net interest income, net interest margin and net interest spread for the three and six months ended June 30, 2009 and 2008. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale securities included in other assets.

Net interest income (FTE) was $836 million for the second quarter of 2009, an increase of $55 million from the first quarter of 2009 and an increase of $92 million from the second quarter of 2008. Net interest income in the second quarter of 2008 was impacted by the recalculation of cash flows for certain leveraged leases that reduced interest income on commercial leases by $130 million, while net interest income in the first quarter of 2009 was impacted by a $6 million charge on these leveraged leases due to the settlement with the IRS. Exclusive of the impact of these items, net interest income increased $49 million compared to the first quarter of 2009 and decreased $38 million compared to the second quarter of 2008. The sequential increase is primarily a result of improved pricing spreads on loan originations and a shift in funding composition to lower cost core deposits as higher priced term deposits issued in the second half of 2008 matured. Additionally, long-term debt balances and rates also decreased in comparison to the first quarter of 2009 driven by $1.2 billion in bank notes maturing in the second quarter of 2009. The sequential increase in net interest income was also impacted by a decline of $2.8 billion, or three percent, in average interest-bearing liabilities compared to a decline of $906 million, or one percent, in average interest-bearing assets driven by an increase in the Bancorp s free funding position. These improvements were partially offset by growth in the Bancorp s nonperforming loans compared to the first quarter of 2009. During the second quarter of 2009, $91 million in additional interest income would have been recognized if nonaccrual loans had been current. Excluding the impact of the second quarter of 2008 leveraged lease charge, net interest income declined year-over-year due to the decline in market interest rates as the Bancorp s assets have repriced faster than its liabilities. This decline in rates more than offset the benefit of the $4.1 billion increase, or four percent, in average interest-earning assets compared to a decline of $1 billion, or one percent, in average interest-bearing liabilities driven by an increase in the Bancorp s free funding position. Net interest income was also impacted by a significant decline in federal funds rates from the second quarter of 2008 and a decline in long term debt outstanding due to a $1 billion FHLB advance maturing in the first quarter of 2009 and the previously mentioned $1.2 billion of bank notes. The Bancorp s net interest rate spread for the second quarter of 2009 was 2.95%, an increase of 21 bp from the first quarter of 2009 and a 23 bp increase from the second quarter of 2008.

Net interest margin increased to 3.26% in the second quarter of 2009 compared to 3.06% in the first quarter of 2009 and 3.04% in the second quarter of 2008. The second quarter of 2008 was impacted by a 53 bp decrease from the recalculation of cash flows in certain leveraged leases mentioned previously. Exclusive of this adjustment, net interest margin increased 20 bp sequentially and declined 31 bp on a year-over-year basis based on the reasons mentioned previously.

Total average interest-earning assets decreased one percent from the first quarter of 2009 and increased four percent compared to the second quarter of 2008. On a year-over-year basis, average total commercial loans decreased two percent while residential mortgage and home equity loans increased four and five percent, respectively. Additionally, the investment portfolio increased $4.4 billion, or 33%, compared to the second quarter of 2008. The increase in the investment portfolio during the quarter is a result of the increase in purchases of mortgage-backed securities and automobile asset-backed securities, the purchase of investment grade commercial paper from an unconsolidated qualifying special purpose entity (QSPE) and an increase in variable rate demand notes (VRDNs) held in the Bancorp s trading portfolio. Further detail on the Bancorp s investment securities portfolio can be found in the Balance Sheet Analysis section.

Interest income (FTE) from loans and leases decreased $3 million, or one percent, compared to the first quarter of 2009 and decreased $55 million, or five percent, compared to the second quarter of 2008. The decrease from the first quarter of 2009 was the result of a 2 bp decrease in average rates and one percent decrease in average loan and lease balances. Exclusive of leveraged lease charges, interest income (FTE) from loans and leases decreased $185 million compared to the prior year quarter. The decrease from the second quarter of 2008 was due to a decrease in average rates.

Interest income (FTE) from investment securities and short-term investments increased two percent compared to the first quarter of 2009 and increased 17% percent compared to the second quarter of 2008. The increase from the first quarter of 2009 was a result of the three percent increase in the average taxable investment portfolio balances. The increase from the second quarter of 2008 was a result of the 33% increase in average investment portfolio balances, offset by a 33 bp decrease in the weighted-average yield on those investments.

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

TABLE 3: Condensed Consolidated Average Balance Sheets and Analysis of Net Interest Income (FTE)

For the three months ended	June 30, 2009			June 30, 2008			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 loans	**$ 28,038**	**$ 283**	**4.06%**	$ 28,557	$ 357	5.04%	($ 6)	($ 68)	($ 74)
Commercial mortgage	**12,668**	**140**	**4.44**	12,590	186	5.93	1	(47)	(46)
Commercial construction	**4,842**	**34**	**2.80**	5,700	77	5.44	(10)	(33)	(43)
Commercial leases	**3,512**	**41**	**4.66**	3,747	(91)	(9.77)	5	127	132
Subtotal commercial	**49,060**	**498**	**4.07**	50,594	529	4.21	(10)	(21)	(31)
Residential mortgage loans	**11,669**	**164**	**5.65**	11,244	171	6.10	6	(12)	(6)
Home equity	**12,636**	**131**	**4.14**	12,012	168	5.61	8	(45)	(37)
Automobile loans	**8,692**	**138**	**6.36**	8,439	131	6.23	4	3	7
Credit card	**1,863**	**47**	**10.06**	1,703	39	9.28	4	3	7
Other consumer loans/leases	**1,076**	**20**	**7.52**	1,220	15	4.97	(2)	7	(5)
Subtotal consumer	**35,936**	**500**	**5.58**	34,618	524	6.08	20	(44)	(24)
Total loans and leases	**84,996**	**998**	**4.71**	85,212	1,053	4.97	10	(65)	(55)
Securities:									
Taxable	**16,778**	**181**	**4.33**	12,554	151	4.83	47	(17)	30
Exempt from income taxes *(b)*	**242**	**5**	**8.04**	364	7	7.32	(3)	1	(2)
Other short-term investments	**742**		**0.15**	445	2	2.12	1	(3)	(2)
Total interest-earning assets	**102,758**	**1,184**	**4.62**	98,575	1,213	4.95	55	(84)	(29)
Cash and due from banks	**2,350**			2,357					
Other assets	**13,907**			12,370					
Allowance for loan and lease losses	**(3,137)**			(1,204)					
Total assets	**$ 115,878**			$ 112,098					
Liabilities									
Interest-bearing liabilities:									
Interest checking	**$ 14,837**	**$ 10**	**0.27%**	$ 14,396	$ 28	0.78%	$ 1	($ 19)	($ 18)
Savings	**16,705**	**32**	**0.77**	16,583	48	1.16	1	(17)	(16)
Money market	**4,167**	**7**	**0.63**	6,592	29	1.76	(8)	(15)	(23)
Foreign office deposits	**1,717**	**2**	**0.54**	2,169	8	1.42	(1)	(4)	(5)
Other time deposits	**14,612**	**127**	**3.48**	9,517	83	3.52	45	(1)	44
Certificates $100,000 and over	**11,455**	**80**	**2.80**	8,143	67	3.29	24	(10)	14
Other foreign office deposits	**240**		**0.19**	2,948	15	2.10	(8)	(8)	(16)
Federal funds purchased	**542**		**0.18**	3,643	19	2.08	(9)	(10)	(19)

Other short-term borrowings	**8,002**	**12**	**0.61**	5,623	30	2.15	8	(26)	(18)
Long-term debt	**11,130**	**78**	**2.79**	14,803	142	3.85	(30)	(34)	(64)
Total interest-bearing liabilities	**83,407**	**348**	**1.67**	84,417	469	2.23	23	(144)	(121)
Demand deposits	**16,689**			14,023					
Other liabilities	**3,292**			4,029					
Total liabilities	**103,388**			102,469					
Shareholders equity	**12,490**			9,629					
Total liabilities and shareholders equity	**$ 115,878**			$ 112,098					
Net interest income		**$ 836**			$ 744		$ 32	$ 60	$ 92
Net interest margin			**3.26%**			3.04%			
Net interest rate spread			**2.95**			2.72			
Interest-bearing liabilities to interest-earning assets			**81.17**			85.64			

(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 fully taxable-equivalent adjustments included in the above table are $5 million and $6 million for the three months ended June 30, 2009 and 2008, respectively.*

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

TABLE 4: Condensed Consolidated Average Balance Sheets and Analysis of Net Interest Income (FTE)

For the six months ended	June 30, 2009			June 30, 2008			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 loans	**$ 28,500**	**$ 570**	**4.03%**	$ 27,587	$ 754	5.50%	$ 25	($ 209)	($ 184)
Commercial mortgage	**12,738**	**284**	**4.50**	12,321	374	6.10	12	(102)	(90)
Commercial construction	**4,978**	**76**	**3.08**	5,639	155	5.54	(17)	(62)	(79)
Commercial leases	**3,538**	**68**	**3.89**	3,735	(51)	(2.76)	3	116	119
Subtotal commercial	**49,754**	**998**	**4.04**	49,282	1,232	5.03	23	(257)	(234)
Residential mortgage loans	**11,297**	**327**	**5.84**	11,472	349	6.12	(5)	(17)	(22)
Home equity	**12,699**	**265**	**4.21**	11,929	358	6.03	22	(115)	(93)
Automobile loans	**8,690**	**275**	**6.38**	9,491	299	6.33	(26)	2	(24)
Credit card	**1,844**	**96**	**10.47**	1,681	77	9.22	8	11	19
Other consumer loans/leases	**1,126**	**38**	**6.83**	1,207	31	5.24	(2)	9	7
Subtotal consumer	**35,656**	**1,001**	**5.66**	35,780	1,114	6.26	(3)	(110)	(113)
Total loans and leases	**85,410**	**1,999**	**4.72**	85,062	2,346	5.55	20	(367)	(347)
Securities:									
Taxable	**16,532**	**357**	**4.36**	12,057	298	4.97	100	(41)	59
Exempt from income taxes *(b)*	**252**	**10**	**7.73**	383	14	7.32	(5)	1	(4)
Other short-term investments	**1,014**	**1**	**0.18**	540	7	2.69	3	(9)	(6)
Total interest-earning assets	**103,208**	**2,367**	**4.62**	98,042	2,665	5.47	118	(416)	(298)
Cash and due from banks	**2,394**			2,296					
Other assets	**14,632**			12,424					
Allowance for loan and lease losses	**(2,962)**			(1,068)					
Total assets	**$ 117,272**			$ 111,694					
Liabilities									
Interest-bearing liabilities:									
Interest checking	**$ 14,534**	**$ 20**	**0.27%**	$ 14,616	$ 81	1.11%	$ 1	($ 61)	($ 60)
Savings	**16,490**	**68**	**0.83**	16,329	120	1.48	1	(54)	(53)
Money market	**4,362**	**15**	**0.67**	6,744	76	2.26	(21)	(40)	(61)
Foreign office deposits	**1,736**	**5**	**0.54**	2,306	23	1.98	(5)	(13)	(18)
Other time deposits	**14,557**	**256**	**3.55**	10,201	200	3.94	78	(21)	57
Certificates - $100,000 and over	**11,628**	**168**	**2.92**	6,989	131	3.77	72	(34)	38
Other foreign office deposits	**243**		**0.21**	3,405	46	2.74	(23)	(23)	(46)
Federal funds purchased	**621**	**1**	**0.25**	4,451	62	2.77	(29)	(32)	(61)

Other short-term borrowings	**8,807**	**36**	**0.82**	5,280	67	2.56	30	(62)	(32)
Long-term debt	**11,827**	**181**	**3.09**	14,064	289	4.15	(42)	(67)	(109)
Total interest-bearing liabilities	**84,805**	**750**	**1.78**	84,385	1,095	2.61	62	(407)	(345)
Demand deposits	**16,114**			13,615					
Other liabilities	**4,065**			4,190					
Total liabilities	**104,984**			102,190					
Shareholders equity	**12,288**			9,504					
Total liabilities and shareholders equity	**$ 117,272**			$ 111,694					
Net interest income		**$ 1,617**			$ 1,570		$ 56	($ 9)	$ 47
Net interest margin			**3.16%**			3.22%			
Net interest rate spread			**2.84**			2.86			
Interest-bearing liabilities to interest-earning assets			**82.17**			86.07			

(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 fully taxable-equivalent adjustments included in the above table are $10 million and $11 million for the six months ended June 30, 2009 and 2008, respectively.*

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

Average core deposits increased $1.9 billion, or three percent, compared to the first quarter of 2009 with increased demand deposits, interest checking and savings accounts offset by lower money market account balances. Average core deposits increased $5.5 billion, or nine percent, compared to the second quarter of 2008 primarily due to increased demand deposits and consumer certificates of deposit. The cost of interest-bearing core deposits was 1.38% in the second quarter of 2009, which was a 8 bp decrease from 1.46% in the first quarter of 2009 and a 22 bp decrease from the 1.60% paid in the second quarter of 2008. The year-over-year and sequential declines are a result of the decrease in short-term market interest rates.

Interest expense on wholesale funding decreased 22% compared the first quarter of 2009 due to declining interest rates and a 10% decrease in average balances. Interest expense on wholesale funding decreased 38% since the second quarter of 2008 due to declining interest rates and an 11% decrease in average balances. During the second quarter of 2009, wholesale funding represented 38% of interest-bearing liabilities compared to 40% in the first quarter of 2009 and 42% in the second quarter of 2008. Additionally, the Bancorp s equity position increased compared to the first quarter of 2009 due to the issuance of $1 billion of common stock and compared to the prior year quarter primarily due to the common stock issuance and the sale of $3.4 billion of senior preferred shares and related warrants to the U.S. Treasury on December 31, 2008 under its Capital Purchase Program (CPP).

Provision for Loan and Lease Losses

The Bancorp provides as an expense an amount for probable loan and lease losses within the loan portfolio that is based on factors previously discussed in the Critical Accounting Policies section. The provision is recorded to bring the allowance for loan and lease losses to a level deemed appropriate by the Bancorp. Actual credit losses on loans and leases are charged against the allowance for loan and lease losses. The amount of loans actually removed from the Condensed Consolidated Balance Sheets is referred to as charge-offs. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

The provision for loan and lease losses increased to $1 billion in the second quarter of 2009 compared to $719 million in the same period last year. The primary factors in the increase were the growth in nonperforming assets, the overall increase in commercial and consumer delinquencies, and the increase in loss estimates once loans become delinquent due to the deterioration in residential real estate collateral values in certain of the Bancorp s key lending markets. As of June 30, 2009, the allowance for loan and lease losses as a percent of loans and leases increased to 4.28% from 1.85% at June 30, 2008.

Refer to the Credit Risk Management section for more detailed information on the provision for loan and lease losses including an analysis of loan portfolio composition, non-performing assets, net charge-offs, and other factors considered by the Bancorp in assessing the credit quality of the loan portfolio and the allowance for loan and lease losses.

Noninterest Income

For the three months ended June 30, 2009, noninterest income was $2.6 billion, an increase of $1.9 billion compared to the three months ended June 30, 2008, driven primarily by the gain on the Processing Business Sale of $1.8 billion. Excluding this gain, noninterest income for the three months ended June 30, 2009, increased $97 million, or 13%, on a year-over-year basis. The components of noninterest income for the three and six month periods ending June 30, 2009 and 2008 are as follows:

TABLE 5: Noninterest Income

($ in millions)	For the three months ended June 30, 2009	2008	Percent Change	For the six months ended June 30, 2009	2008	Percent Change
Electronic payment processing revenue	**$ 243**	$ 235	4	**$ 466**	$ 447	4
Service charges on deposits	**162**	159	2	**308**	307	

Mortgage banking net revenue	**147**	86	72	**281**	182	54
Corporate banking revenue	**99**	111	(11)	**215**	218	(2)
Investment advisory revenue	**73**	92	(21)	**149**	185	(19)
Gain on Processing Business Sale	**1,764**		NM	**1,764**		NM
Other noninterest income	**49**	49	(1)	**60**	228	(74)
Securities gains (losses), net	**5**	(10)	NM	**(20)**	17	NM
Securities gains, net non-qualifying hedges on mortgage servicing rights	**41**		NM	**57**	3	2,162
Total noninterest income	**$ 2,583**	$ 722	258	**$ 3,280**	$ 1,587	107

NM Percentage change is not meaningful.

Electronic payment processing revenue increased $8 million, or four percent, in the second quarter of 2009 compared to the same period last year as FTPS realized growth in merchant processing and card services revenue, offset by lower financial institutions revenue. Merchant processing revenue increased 10%, to $96 million, compared to the same period in 2008 due to strong debit card processing revenue, partially offset by decreased average ticket size on both credit and debit transaction. Debit card processing revenue was driven by an increase in debit card transactions of 20% in the second quarter of 2009 compared to the same period last year. Card services increased due to card issuer interchange revenue which increased three percent, to $66 million, compared to the same period in 2008 due to continued growth in credit card transactions, offset by a decline in the average dollar amount per

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transaction. The Bancorp processes over 28.4 billion transactions annually and handles electronic processing for over 173,000 merchant locations worldwide. Financial institutions revenue decreased three percent, to $81 million, compared to the second quarter of 2008 as a result of declines in contract cancellation fees partially offset by strong transaction volumes. The Bancorp handled processing for nearly 3,100 financial institutions in the second quarter of 2009, compared to approximately 2,900 in the same period of 2008. Additionally, see Note 19 of the Notes to Condensed Consolidated Financial Statements for further discussion on the sale of the Processing Business.

Service charges on deposits were relatively flat in the second quarter of 2009 compared to the same period last year. Commercial deposits revenue increased $2 million, or three percent, compared to the prior year. This growth primarily reflected an increase in customer accounts and lower market interest rates. Commercial customers receive earnings credits to offset the fees charged for banking services on their deposit accounts such as account maintenance, lockbox, ACH transactions, wire transfers and other ancillary corporate treasury management services. Earnings credits are based on the customer s average balance in qualifying deposits multiplied by the crediting rate. Qualifying deposits include demand deposits and noninterest-bearing checking accounts. The Bancorp has a standard crediting rate that is adjusted as necessary based on competitive market conditions and changes in short-term interest rates. Retail deposit revenue also remained relatively flat in the second quarter of 2009 compared to the same period last year.

Mortgage banking net revenue increased to $147 million in the second quarter of 2009 from $86 million in the same period last year. The components of mortgage banking net revenue for the three and six months ended June 30, 2009 and 2008 are shown in Table 6.

TABLE 6: Components of Mortgage Banking Net Revenue

	For the three months ended June 30,		**For the six months ended June 30,**	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Origination fees and gains on loan sales	**$ 161**	$ 79	**$ 291**	$ 171
Servicing revenue:				
Servicing fees	**49**	42	**95**	83
Servicing rights amortization	**(47)**	(31)	**(90)**	(64)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**(16)**	(4)	**(15)**	(8)
Net servicing revenue (expense)	**(14)**	7	**(10)**	11
Mortgage banking net revenue	**$ 147**	$ 86	**$ 281**	$ 182

Mortgage banking revenue increased significantly compared to the prior year quarter due to strong growth in originations and higher sales margins. Mortgage originations more than doubled to $7.2 billion from the second quarter last year due to the decrease in interest rates throughout the latter part of 2008 and into the current year as well as government programs, which are designed to provide significant tax incentives to first-time homebuyers. An increase in loan sales contributed approximately $82 million to the growth in mortgage banking revenue, partially offset by a decline in gains on portfolio loan sales of $8 million.

Mortgage net servicing revenue for the three months ended June 30, 2009 decreased $21 million compared to the same period last year due to increases in both the amortization of servicing rights and the net valuation adjustments on mortgage servicing rights and mark-to-market adjustments on both settled and outstanding free-standing derivative financial instruments purchased to economically hedge the MSR portfolio. The Bancorp s total residential mortgage loans serviced at June 30, 2009 and 2008 were $55 billion and $49.4 billion, respectively, with $43.5 billion and $38.7 billion, respectively, of residential mortgage loans serviced for others.

Servicing rights are deemed impaired when a borrower s loan rate is distinctly higher than prevailing rates. Impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. Further detail on the valuation of mortgage servicing rights can be found in Note 7 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 impairment on the mortgage servicing rights (MSR) portfolio. The Bancorp recognized a loss from derivatives economically hedging MSRs of $66 million, offset by a reversal of temporary impairment on the MSR portfolio of $50 million, resulting in a net loss of $16 million for the three months ended June 30, 2009. For the three months ended June 30, 2008, the Bancorp recognized a loss from derivatives economically hedging MSRs of $84 million, offset by a reversal of temporary impairment on the MSR portfolio of $80 million, resulting in a net loss of $4 million. See Note 9 of the Notes to Condensed Consolidated Financial Statements for more information on the free-standing derivatives used to 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 a net gain of $41 million on the sale of securities related to mortgage servicing rights during the second quarter of 2009, compared to a zero net impact during the second quarter of 2008.

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Corporate banking revenue decreased 11% to $99 million in the second quarter of 2009 from the comparable period in 2008. The decline in corporate banking revenue was largely attributable to a lower volume of interest rate derivative sales and foreign exchange revenue, partially offset by growth in institutional sales and business lending fees. The Bancorp is committed to providing a comprehensive range of financial services to large and middle-market businesses and continues to see opportunities to expand its product offering.

Investment advisory revenues decreased $19 million, or 21%, from the second quarter of 2008. The Bancorp experienced double digit decreases across all major categories within investment advisory revenue. Brokerage fee income, which includes Fifth Third Securities income, decreased 25%, to $20 million in the second quarter of 2009 as investors continued to migrate balances from stock and bond funds to money markets funds resulting in reduced commission-based transactions. Mutual fund revenue decreased 26%, to $10 million in the second quarter of 2009 reflecting lower asset valuations on assets under management and a continued shift to money market funds and other lower fee products. As of June 30, 2009, the Bancorp had approximately $180 billion in assets under care and managed $24 billion in assets for individuals, corporations and not-for-profit organizations.

The major components of other noninterest income are as follows:

TABLE 7: Components of Other Noninterest Income

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Bank owned life insurance income (loss)	**$ 17**	$ 12	**($ 26)**	($ 123)
Operating lease income	**14**	11	**29**	21
Insurance income	**14**	10	**26**	21
Consumer loan and lease fees	**11**	14	**23**	25
Cardholder fees	**11**	13	**24**	28
Gain (loss) on loan sales	**11**	1	**21**	(10)
Banking center income	**5**	8	**11**	18
Gain on redemption of Visa, Inc. ownership interests				273
Loss on sale of other real estate owned	**(13)**	(19)	**(27)**	(26)
Other	**(21)**	(1)	**(21)**	1
Total other noninterest income	**$ 49**	$ 49	**$ 60**	$ 228

Other noninterest income remained flat in the second quarter of 2009 compared to the same period last year. For the six months ended June 30, 2009, other noninterest income decreased $168 million due primarily to a $273 million gain from the redemption of a portion of the Bancorp s ownership interest in Visa, offset by a $152 million charge to reduce the cash surrender value of one of the Bancorp s BOLI policies, in the first quarter of 2008. In the first quarter of 2009, a BOLI charge of $54 million was recognized, reflecting reserves recorded in connection with the intent to surrender the policy, as well as losses related to market value declines. The gain on loan sales in the second quarter of 2009 primarily resulted from gains realized from the sale of commercial loans that were designated as held for sale during the fourth quarter of 2008. The loss on sale of OREO declined compared to the second quarter of 2008 due to a decrease in the volume of properties sold during the second quarter of 2009. The second quarter of 2009 results also included a $15 million impairment charge, recorded in the other caption, on a facility the Bancorp intends to vacate.

Noninterest Expense

Total noninterest expense increased $163 million, or 19%, in the second quarter of 2009 compared to the same period last year primarily due to higher personnel and loan processing expenses, as well as elevated Federal Deposit Insurance Corporation (FDIC) insurance costs.

The major components of noninterest expense are as follows:

TABLE 8: Noninterest Expense

($ in millions)	For the three months ended June 30, 2009	2008	Percent Change	For the six months ended June 30, 2009	2008	Percent Change
Salaries, wages and incentives	**$ 346**	$ 331	4	**$ 673**	679	(1)
Employee benefits	**75**	60	24	**158**	145	9
Net occupancy expense	**79**	73	8	**158**	145	8
Payment processing expense	**75**	67	11	**141**	133	6
Technology and communications	**45**	49	(7)	**90**	96	(6)
Equipment expense	**31**	31	1	**62**	61	2
Other noninterest expense	**370**	247	50	**702**	317	121
Total noninterest expense	**$ 1,021**	$ 858	19	**$ 1,984**	1,576	26

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

Total personnel costs (salaries, wages and incentives plus employee benefits) increased eight percent in the second quarter of 2009 compared to the same period last year, driven by an increase in revenue based variable compensation in addition to an increase in deferred compensation expenses, partially offset by a decrease in base compensation. Full time equivalent employees totaled 20,702 as of June 30, 2009 compared to 21,617 as of June 30, 2008.

Net occupancy expenses increased eight percent in the second quarter of 2009 over the same period last year due to increases in rent and depreciation expenses. Payment processing expense, which includes third-party processing expenses, card management fees and other bankcard processing expenses, was up 11% compared to the same period last year due primarily to higher network charges from increased debit card transaction volume.

The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 29.9% and 58.6% for the three months ended June 30, 2009 and 2008, respectively. Excluding the $1.8 billion gain on the Processing Business Sale, the efficiency ratio for the three months ended June 30, 2009 was 61.7% (comparison being provided to supplement an understanding of fundamental trends). The Bancorp continues to focus on efficiency initiatives, as part of its core emphasis on operating leverage and on expense control.

The major components of other noninterest expense are as follows:

TABLE 9: Components of Other Noninterest Expense

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
FDIC insurance and other taxes	**$ 106**	18	**$ 151**	29
Loan processing and collections	**67**	39	**121**	76
Affordable housing investments	**20**	16	**38**	31
Marketing	**18**	25	**35**	44
Intangible asset amortization	**16**	12	**31**	23
Professional services fees	**13**	16	**31**	28
Postal and courier	**13**	13	**28**	27
Travel	**10**	14	**19**	27
Operating lease	**10**	7	**19**	14
Provision for unfunded commitments and letters of credit	**9**	10	**44**	17
Recruitment and education	**7**	8	**16**	17
Supplies	**5**	8	**9**	16
Visa litigation accrual				(152)
Other	**76**	61	**160**	120
Total other noninterest expense	**$ 370**	$ 247	**$ 702**	$ 317

Total other noninterest expense increased by $123 million from the second quarter of 2008. The second quarter of 2009 results include a special FDIC assessment charge of $55 million. Excluding this charge, other noninterest expense increased $68 million primarily due to increased closing expenses resulting from growth in loan originations, and increased FDIC insurance costs from higher assessment rates during the second quarter of 2009.

FDIC assessment rates increased during the second quarter of 2009 due to a final rule issued by the FDIC during the first quarter of 2009. The final rule changed the way the FDIC differentiates for risk, resulting in changes to assessment rates beginning with the second quarter of 2009. In addition, the FDIC issued an interim rule that provided for a special assessment based upon the lesser of 5 bps of total assets less Tier 1 capital of each bank charter or 10 bp of domestic deposits on June 30, 2009, which resulted in a charge of $55 million to other noninterest

expense.

Applicable Income Taxes

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

TABLE 10: Applicable Income Taxes

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	2009	2008	2009	2008
Income (loss) before income taxes	**$ 1,352**	(117)	**$ 1,089**	307
Applicable income tax expense	**470**	85	**157**	223
Effective tax rate	**34.7%**	(72.4)	**14.5%**	72.6

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Applicable income tax expense for all periods includes the benefit from tax-exempt income, tax-advantaged investments and general business tax credits, partially offset by the effect of nondeductible expenses. The effective tax rate for the quarter ended June 30, 2009 was primarily impacted by the pre-tax gain on the Processing Business Sale of $1.8 billion, which had an effective tax rate of approximately 40%. The effective tax rate for the six months ended June 30, 2009 was impacted by the pre-tax loss in the first quarter of 2009, a $106 million tax benefit related to the one of the Bancorp s BOLI policies and a $55 million reduction in income tax expense related to the Bancorp s leveraged lease litigation settlement with the IRS. The effective tax rates for the three and six months ended June 30, 2008 was primarily impacted by a charge to tax expense of approximately $140 million in the second quarter of 2008 required for interest related to the tax treatment of certain of the Bancorp s leveraged leases for previous tax years. Additionally, see Note 12 of the Notes to Condensed Consolidated Financial Statements for further information on income taxes.

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BALANCE SHEET ANALYSIS

Loans and Leases

Tables 11 and 12 summarize the end of period and average total loans and leases, including loans held for sale. The Bancorp classifies its loans and leases based upon the primary purpose of the loan.

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

	June 30, 2009		December 31, 2008		June 30, 2008	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial loans	**$ 28,419**	**33**	$ 29,220	34	$ 28,958	33
Commercial mortgage loans	**12,600**	**15**	12,952	15	13,394	16
Commercial construction loans	**4,641**	**6**	5,114	6	6,007	7
Commercial leases	**3,532**	**4**	3,666	5	3,647	4
Subtotal commercial	**49,192**	**58**	50,952	60	52,006	60
Consumer:						
Residential mortgage loans	**11,440**	**14**	10,292	12	10,704	13
Home equity	**12,511**	**15**	12,752	15	12,421	14
Automobile loans	**8,741**	**10**	8,594	10	8,362	10
Credit card	**1,914**	**2**	1,811	2	1,717	2
Other consumer loans and leases	**972**	**1**	1,194	1	1,203	1
Subtotal consumer	**35,578**	**42**	34,643	40	34,407	40
Total loans and leases	**$ 84,770**	**100**	$ 85,595	100	$ 86,413	100

Total loans and leases decreased $1.6 billion, or two percent, compared to the second quarter of 2008. The decrease in total loans and leases from the prior year was primarily due to a decline in the commercial loan portfolio, partially offset by an increase in the consumer loan portfolio.

Total commercial loans and leases decreased $2.8 billion, or five percent, compared to June 30, 2008. The decrease compared to the second quarter of 2008 was primarily a result of tighter underwriting standards, implemented in the first quarter of 2009, across all commercial loan products with a significant focus on commercial construction loans. Tighter underwriting standards were applied to both new loan originations as well as loans up for renewal. Commercial construction loans decreased $1.4 billion or 23% from the prior year due to management s strategy to suspend new lending on commercial non-owner occupied real estate at the end of 2008. The commercial loan product balance decreased $539 million, or two percent, from the prior year due to an overall decrease in customer line utilization and tighter underwriting standards implemented in first quarter of 2009, despite the impact of a $1.25 billion loan issued in conjunction with the Processing Business Sale and $1.2 billion in loans from the use of contingent liquidity facilities related to certain off-balance sheet programs that were drawn upon starting in the third quarter of 2008. Included within the contingent liquidity facilities were approximately $409 million in draws on outstanding letters of credit that were supporting certain securities issued as VRDNs. For further information on these arrangements, see the Off-Balance Sheet Arrangements section and Note 10 of the Notes to Condensed Consolidated Financial Statements.

Total consumer loans and leases increased $1.2 billion, or three percent, compared to June 30, 2008, as a result of strong growth in residential mortgage loan originations, an increase in automobile loans and credit card loans offset partially by a decrease in other consumer loans. The growth in residential mortgage loans of $736 million, or seven percent, compared June 30, 2008 was primarily due to a decline in interest rates and the federal government tax credit to new homebuyers. Automobile loans increased $379 million, or five percent, compared to the second quarter of 2008 as a result of a continued build up in the loan portfolio after $2.8 billion in auto securitizations, which occurred in the first quarter of 2008, and special incentives offered by automobile dealers to reduce their inventory of vehicles. Credit card loans increased $197 million, or 12%, compared to the same quarter last year due to an increase in the Bancorp s continued success in cross-selling credit cards to its existing retail customer base. Home equity loans increased $90 million or one percent over the second quarter of 2008, due to the introduction of new product offerings in the second half of 2008. Other consumer loans and leases decreased $231 million, or 19%, compared to the prior year due to continued wind down of Bancorp s automobile leasing portfolio.

Average total commercial loans and leases decreased $1.5 billion, or three percent, compared to the second quarter of 2008. The decrease in average total commercial loans and leases was primarily driven by declines in commercial construction loans, commercial loans and commercial leases which decreased by 15%, two percent, and six percent, respectively, but slightly offset by a one percent increase in commercial mortgages. The decrease in commercial construction loans was primarily due to the suspension of new originations on non-owner commercial real estate loans, while the decrease in commercial loans and commercial leases was due to tighter underwriting standards as previously mentioned.

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

Average total consumer loans and leases increased $1.3 billion, or four percent, compared to the second quarter of 2008 as a result of an increase in home equity loans of five percent, residential mortgage loans of four percent and automobile loans of three percent partially offset by a decrease in other consumer loans and leases of 12%.

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

	June 30, 2009		December 31, 2008		June 30, 2008	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial loans	**$ 28,038**	**33**	$ 30,227	35	$ 28,557	33
Commercial mortgage loans	**12,668**	**15**	13,194	15	12,590	15
Commercial construction loans	**4,842**	**6**	5,990	7	5,700	7
Commercial leases	**3,512**	**4**	3,610	4	3,748	4
Subtotal commercial	**49,060**	**58**	53,021	61	50,595	59
Consumer:						
Residential mortgage loans	**11,669**	**14**	10,327	12	11,244	13
Home equity	**12,636**	**15**	12,677	14	12,012	14
Automobile loans	**8,692**	**10**	8,428	10	8,439	10
Credit card	**1,863**	**2**	1,748	2	1,703	2
Other consumer loans and leases	**1,076**	**1**	1,225	1	1,219	2
Subtotal consumer	**35,936**	**42**	34,405	39	34,617	41
Total average loans and leases	**$ 84,996**	**100**	$ 87,426	100	$ 85,212	100
Total portfolio loans and leases (excludes held for sale)	**$ 81,573**		$ 86,369		$ 83,537	

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 June 30, 2009, total investment securities were $17.8 billion compared to $13.3 billion at June 30, 2008.

Securities are classified as trading when bought and held principally for the purpose of selling them in the near term. Securities are classified as available-for-sale when, in management s judgment, they may be sold in response to, or in anticipation of, changes in market conditions. Securities that management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost.

The Bancorp s management has evaluated the securities in an unrealized loss position in the available-for-sale and held-to-maturity portfolios for other-than-temporary impairment (OTTI). The evaluation was performed on the basis of the duration of the decline in value of the security, the severity of that decline, the Bancorp s intent to hold these securities to the earlier of the recovery of the loss or maturity and the determination that it was more-likely-than-not that the Bancorp would not be required to sell the security before the recovery of its cost basis. During the second quarter of 2009, the Bancorp did not recognize OTTI on any of its available-for-sale or held-to-maturity securities. Additionally, upon adoption of FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments in the second quarter of 2009, the Bancorp recovered $37 million of OTTI previously recorded on certain bank trust preferred securities as it was determined the decline in their fair value was not credit driven.

At June 30, 2009, the Bancorp s investment portfolio primarily consisted of AAA-rated agency mortgage-backed securities. The Bancorp did not hold asset-backed securities backed by subprime loans in its securities portfolio at June 30, 2008 or 2009.

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TABLE 13: Components of Investment Securities

($ in millions)	June 30, 2009	December 31, 2008	June 30, 2008
Available-for-sale and other: (amortized cost basis)			
U.S. Treasury and Government agencies	**$ 357**	186	$ 226
U.S. Government sponsored agencies	**1,748**	1,651	244
Obligations of states and political subdivisions	**301**	323	383
Agency mortgage-backed securities	**9,085**	8,529	9,831
Other bonds, notes and debentures	**3,057**	613	1,181
Other securities	**1,272**	1,248	1,070
Total available-for-sale and other securities	**$ 15,820**	12,550	$ 12,935
Held-to-maturity:			
Obligations of states and political subdivisions	**352**	355	356
Other bonds, notes and debentures	**5**	5	5
Total held-to-maturity	**$ 357**	360	361
Trading:			
Variable rate demand notes	**$ 970**	1,140	
Other securities	**384**	51	241
Total trading	**$ 1,354**	1,191	241

On an amortized cost basis at June 30, 2009, available-for-sale securities increased $2.9 billion compared to June 30, 2008. In the first quarter of 2009, financial market volatility created attractive investment opportunities. As a result, the Bancorp purchased $1.4 billion in AAA-rated automobile asset-backed securities, and $1.5 billion of agency issued mortgage backed securities and debentures to manage the interest rate risk of the Bancorp. The increase in securities was also driven by the additional purchase of $539 million of commercial paper from an unconsolidated QSPE. At June 30, 2009, available-for-sale securities have increased to 15% of interest-earning assets, compared to 13% at June 30, 2008. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 4.3 years at June 30, 2009 compared to 6.6 years at June 30, 2008. The decrease in the weighted-average life of the debt securities portfolio was primarily attributed to the agency mortgage backed securities portfolio as declines in market rates, increased the likelihood that borrowers will refinance, thus decreasing the weighted-average life. At June 30, 2009, the fixed-rate securities within the available-for-sale securities portfolio had a weighted-average yield of 4.62% compared to 5.03% at June 30, 2008. The available-for-sale portfolio, which is largely comprised of fixed-rate securities, benefited from the decline in market rates, which led to a net unrealized gain of $241 million at June 30, 2009 compared to a net unrealized loss of $217 million at June 30, 2008.

Since the second half of 2007, as part of its liquidity support agreement, the Bancorp has purchased investment grade commercial paper from an unconsolidated QSPE that is wholly owned by an independent third-party. The commercial paper has maturities ranging from one day to 90 days and is backed by the assets held by the QSPE. As of the June 30, 2009 and 2008, the Bancorp held $1.2 billion and $614 million of this commercial paper in its available-for-sale portfolio. Refer to the Off-Balance Sheet Arrangements section for more information on the QSPE.

Information presented in Table 13 is on a weighted-average life basis, anticipating future prepayments. Yield information is presented on an FTE basis and is computed using historical cost balances. Maturity and yield calculations for the total available-for-sale portfolio exclude equity securities that have no stated yield or maturity.

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

As of June 30, 2009 ($ in millions)	Amortized Cost	Fair Value	Weighted-Average Life (in years)	Weighted-Average Yield
U.S. Treasury and Government agencies:				
Average life of one year or less	$ 80	$ 81	0.5	2.19%
Average life 1 5 years	127	129	1.3	1.78
Average life 5 10 years	149	146	9.9	3.28
Average life greater than 10 years	1	1	11.2	1.71
Total	357	357	4.7	2.49
U.S. Government sponsored agencies:				
Average life of one year or less	85	87	0.8	2.87
Average life 1 5 years	84	87	1.7	3.38
Average life 5 10 years	1,579	1,570	7.5	3.74
Average life greater than 10 years				
Total	1,748	1,744	6.9	3.68
Obligations of states and political subdivisions *(a)*:				
Average life of one year or less	182	183	0.2	7.35
Average life 1 5 years	26	26	2.7	7.34
Average life 5 10 years	48	49	7.1	6.87
Average life greater than 10 years	45	44	12.6	4.11
Total	301	302	3.4	6.79
Agency mortgage-backed securities:				
Average life of one year or less	100	102	0.8	4.51
Average life 1 5 years	5,890	6,051	3.6	5.01
Average life 5 10 years	3,094	3,192	6.1	5.08
Average life greater than 10 years	1	1	10.4	4.30
Total	9,085	9,346	4.4	5.03
Other bonds, notes and debentures *(b)*:				
Average life of one year or less	1,748	1,754	0.3	2.29
Average life 1 5 years	1,005	1,018	2.1	5.86
Average life 5 10 years	118	101	9.0	7.58
Average life greater than 10 years	186	167	22.9	7.10
Total	3,057	3,040	2.6	3.96
Other securities *(c)*	1,272	1,272		
Total available-for-sale and other securities	$ 15,820	$ 16,061	4.3	4.62%

(a) *Taxable-equivalent yield adjustments included in the above table are 2.52%, 1.75%, 0.21%, 0.01% and 1.71% 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.*
(b) *Other bonds, notes, and debentures consist of commercial paper, non-agency mortgage backed securities, certain other asset backed securities (primarily automobile and commercial loan backed securities) and corporate bond securities.*
(c) *Other securities consist of Federal Home Loan Bank (FHLB) and Federal Reserve Bank restricted stock holdings that are carried at par, Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) preferred stock holdings, certain mutual fund holdings and equity security holdings.*

Trading securities increased from $241 million as of June 30, 2008 to $1.4 billion as of June 30, 2009. The increase was driven by $970 million of VRDNs held by the Bancorp in its trading securities portfolio at June 30, 2009. These securities were purchased from the market during 2008 and 2009, through FTS, who was also the remarketing agent. For more information on the Bancorp s obligations in remarketing VRDNs, see Note 10 of the Notes to Condensed Consolidated Financial Statements.

Deposits

Deposit balances represent an important source of funding and revenue growth opportunity. The Bancorp is continuing to focus on core deposit growth in its retail and commercial franchises through improving customer loyalty, offering competitive rates and enhancing its product offerings. At June 30, 2009, core deposits represented 60% of the Bancorp s asset funding base, compared to 57% at June 30, 2008.

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TABLE 15: Deposits

	June 30, 2009		December 31, 2008		June 30, 2008	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Demand	**$ 17,202**	**21**	$ 15,287	19	$ 16,259	21
Interest checking	**14,630**	**18**	14,222	18	14,002	18
Savings	**16,819**	**21**	16,063	20	16,602	21
Money market	**4,193**	**5**	4,689	6	6,806	9
Foreign office	**2,244**	**3**	2,144	3	2,174	3
Transaction deposits	**55,088**	**68**	52,405	66	55,843	72
Other time	**14,540**	**18**	14,350	19	9,839	13
Core deposits	**69,628**	**86**	66,755	85	65,682	85
Certificates - $100,000 and over	**10,688**	**13**	11,851	15	10,870	14
Other foreign office	**504**	**1**	7		864	1
Total deposits	**$ 80,820**	**100**	$ 78,613	100	$ 77,416	100

Core deposits grew six percent compared to June 30, 2008 primarily due to an increase in other time deposits of 48% from the second quarter of 2008, driven by growth in consumer CDs as the Bancorp increased the rates offered on these accounts due to competition within the industry. The decrease in transaction deposits was driven by the decline in money market accounts as a result of migration into higher rate consumer CDs. This was partially offset by the growth in demand, interest checking and savings deposits. Average demand deposits grew 19% from the second quarter of 2008. The increase was driven by 35% year-over-year growth in commercial demand deposits. This occurred as a result of increased attractiveness of commercial demand deposit accounts to the Bancorp s commercial customers due to mitigating risk through FDIC insurance of demand deposit accounts (DDAs) and a lower economic benefit from sweeping balances into interest-bearing vehicles, which drove a 47% shift from commercial money market demand accounts.

TABLE 16: Average Deposits

	June 30, 2009		December 31, 2008		June 30, 2008	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Demand	**$ 16,689**	**21**	14,602	19	$ 14,023	19
Interest checking	**14,837**	**18**	13,698	18	14,396	19
Savings	**16,705**	**21**	15,960	20	16,583	22
Money market	**4,167**	**5**	4,983	6	6,592	9
Foreign office	**1,717**	**2**	1,876	2	2,169	3
Transaction deposits	**54,115**	**67**	51,119	65	53,763	72
Other time	**14,612**	**18**	13,337	18	9,517	13
Core deposits	**68,727**	**85**	64,456	83	63,280	85
Certificates - $100,000 and over	**11,455**	**15**	12,468	16	8,143	11

Other foreign office	**240**		1,090	1	2,948	4
Total deposits	**$ 80,422**	**100**	78,014	100	$ 74,371	100

On an average basis, core deposits increased nine percent driven by strong demand and checking account balance growth offset by migration from money market balances to CDs that offered higher rates compared to the second quarter of 2008. Excluding the First Charter acquisition, average core deposits were up six percent compared to June 30, 2008. On a year-over-year basis, the Bancorp realized growth in demand, interest checking and certificates of deposit balances, which more than offset the decrease in money market and foreign office commercial sweep deposits.

Borrowings

Total borrowings declined $6.5 billion from December 31, 2008, and $5.8 billion, from June 30, 2008, as the result of a combination of balance sheet activity and capital actions taken by the Bancorp. Loan growth remained relatively flat from both June 30, 2008 and December 31, 2008, while deposits increased $3.4 billion and $2.2 billion, respectively, resulting in a decrease of the funding position of approximately $4 billion. Further, the Processing Business Sale provided $562 million of cash, and the Bancorp raised an additional $1 billion of common equity in the public market, further decreasing the funding position. As of June 30, 2009, December 31, 2008 and June 30, 2008, total borrowings as a percentage of interest-bearing liabilities were 21%, 27% and 27%, respectively.

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

TABLE 17: Borrowings

($ in millions)	June 30, 2009	December 31, 2008	June 30, 2008
Federal funds purchased	**$ 435**	287	$ 2,447
Other short-term borrowings	**6,802**	9,959	5,628
Long-term debt	**10,102**	13,585	15,046
Total borrowings	**$ 17,339**	23,831	$ 23,121

Total short-term borrowings were $7.2 billion at June 30, 2009, down from $8.1 billion at June 30, 2008. In addition to the Bancorp s overall reduced reliance on short-term funding, as discussed above, the Bancorp has also experienced a shift in funding composition as it has moved away from federal funds due to market illiquidity and uncertainty in the federal funds market over last year. Other short-term borrowings as of June 30, 2009 consist of approximately $4.3 billion in Term Auction Facility funds and $950 million in FHLB advances as well as other borrowings with original maturities of one year or less.

Long-term debt at June 30, 2009 decreased 33% compared to June 30, 2008. This was due, in part, to a $1.0 billion FHLB advance maturing in the first quarter of 2009 and $1.2 billion in bank notes maturing in the second quarter of 2009, as well as other maturities throughout the second half of 2008.

Information on the average rates paid on borrowings is located in the Statements of Income Analysis. 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 (continued)

BUSINESS SEGMENT REVIEW

The Bancorp reports on five business segments: Commercial Banking, Branch Banking, Consumer Lending, Processing Solutions and Investment Advisors. Further detailed financial information on each business segment is included in Note 18 of the Notes to Condensed Consolidated Financial Statements.

Results of the Bancorp s business segments are presented based on its management structure and management accounting practices. The structure and accounting practices are specific to the Bancorp; therefore, the financial results of the Bancorp s business segments are not necessarily comparable with similar information for other financial institutions. The Bancorp refines its methodologies from time to time as management accounting practices are improved and businesses change.

The Bancorp manages interest rate risk centrally at the corporate level by employing a funds transfer pricing (FTP) methodology. 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.

Management made changes to the FTP methodology in the first quarter of 2009 to update the calculation of FTP charges and credits to each of the Bancorp s business segments. Changes to the FTP methodology were applied retroactively and included updating rates to reflect significant increases in the Bancorp s liquidity premiums. The increased spreads reflect the Bancorp s liability structure and are more weighted towards retail product pricing spreads. Management will review FTP spreads periodically based on the extent of changes in market spreads. The new FTP methodology impacts all new loan originations and renewals in addition to new certificates of deposit; existing certificates of deposit will not be impacted. All demand deposits and managed accounts were impacted by the new FTP methodology.

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 allowance for loan and lease losses 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 were to exist as independent entities. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations by accessing the capital markets as a collective unit. Net income (loss) by business segment is summarized as follows:

TABLE 18: Business Segment Results

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Commercial Banking	**$ (4)**	106	**$ 62**	236
Branch Banking	**78**	152	**148**	305
Consumer Lending	**3**	(6)	**32**	33
Processing Solutions	**48**	48	**94**	88
Investment Advisors	**10**	30	**29**	62
General Corporate and Other	**747**	(532)	**567**	(640)
Net income (loss)	**$ 882**	(202)	**$ 932**	84
Dividends on preferred stock	**26**		**103**	

Net income (loss) available to common shareholders	**$ 856**	(202)	**829**	84

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

Commercial Banking

Commercial Banking offers banking, cash management and financial services to large and middle-market businesses, government and professional customers. In addition to the traditional lending and depository offerings, Commercial Banking products and services include, among others, 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 table below contains selected financial data for the Commercial Banking segment.

TABLE 19: Commercial Banking

($ in millions)	For the three months ended June 30, 2009	2008	For the six months ended June 30, 2009	2008
Income Statement Data				
Net interest income (FTE) *(a)*	$ **339**	338	$ **675**	687
Provision for loan and lease losses	**289**	157	**508**	282
Noninterest income:				
Corporate banking revenue	**89**	101	**197**	203
Service charges on deposits	**49**	46	**97**	90
Other noninterest income	**22**	11	**45**	25
Noninterest expense:				
Salaries, incentives and benefits	**56**	60	**116**	125
Other noninterest expenses	**205**	155	**382**	311
Income (loss) before taxes	**(51)**	124	**8**	287
Applicable income tax expense *(a)*	**(47)**	18	**(54)**	51
Net income (loss)	$ **(4)**	106	$ **62**	236
Average Balance Sheet Data				
Commercial loans	$ **42,004**	43,072	$ **42,602**	41,829
Demand deposits	**8,224**	6,083	**7,871**	5,931
Interest checking	**5,643**	4,352	**5,471**	4,611
Savings and money market	**2,349**	4,491	**2,556**	4,580
Certificates over $100,000	**4,866**	1,769	**4,457**	1,764
Foreign office deposits	**977**	1,878	**1,132**	1,982

(a) Includes taxable-equivalent adjustments of $3 million and $4 million for the three months ended June 30, 2009 and 2008, respectively, and $7 million for the six months ended June 30, 2009 and 2008.

Net income decreased $110 million compared to the second quarter of 2008 as an income tax benefit and an increase in other noninterest income, was more than offset by lower corporate banking revenue, increased provision for loan and lease losses, growth in loan and lease expenses and an increase in allocated FDIC insurance expense including a special assessment on the Bancorp. Average commercial loans and leases decreased $1.1 billion, or three percent, compared to the prior year s comparable quarter, including decreases of $898 million and $217 million in commercial construction and commercial leases, respectively. The overall decrease in commercial loans and leases is due to lower utilization rates on corporate lines in addition to tighter lending standards, implemented throughout the second half of 2008, on commercial loan and lease products including the suspension of new lending to commercial non-owner occupied real estate.

Average core deposits decreased three percent compared to the second quarter of 2008 as the Commercial Banking segment experienced a shift from savings and money market accounts, due to the low interest rate environment, to certificates over $100,000, which were significantly higher than the same period last year due to commercial customers utilizing higher yielding investment alternatives. Demand deposits increased from the prior year quarter resulting from increased attractiveness to customers due to mitigating risk through FDIC insurance of demand deposit accounts and a lower economic benefit from sweeping balance into interest-bearing vehicles. Net charge-offs as a percent of average loans and leases increased to 279 bp from 146 bp in the second quarter of 2008. Net charge-offs increased in comparison to the prior year quarter due to weakening economic conditions and the continuing deterioration of credit within the Bancorp s footprint, particularly in Michigan and Florida, involving commercial loans and commercial mortgage loans.

Noninterest income increased approximately $2 million, or one percent, compared to the same quarter last year due to an increase in revenue from commercial loan sales of approximately $11 million, an increase in charges on commercial deposits of $3 million partially offset by a decline in corporate banking revenue of $12 million. Charges on commercial deposits increased from the prior year due to an increase in customer accounts and lower market interest rates, as reduced earnings credits paid on customer balances have resulted in higher realized net service fees. Corporate banking revenue decreased as a result of lower volume of interest rate derivative transactions and a decline in foreign exchange revenue partially offset by growth in institutional sales and business lending fees.

Noninterest expense increased $46 million, or 21%, compared to the second quarter of 2008 primarily due to FDIC insurance cost increase as a result of higher assessment rates and an allocated portion of a special assessment incurred by the Bancorp during the second quarter of 2009 and higher loan and lease expense from increased collections activities compared to the second quarter of 2008.

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

Branch Banking

Branch Banking provides a full range of deposit and loan and lease products to individuals and small businesses through 1,306 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 automobile and other personal financing needs, as well as products designed to meet the specific needs of small businesses, including cash management services. The table below contains selected financial data for the Branch Banking segment.

TABLE 20: Branch Banking

($ in millions)	For the three months ended June 30, 2009	2008	For the six months ended June 30, 2009	2008
Income Statement Data				
Net interest income	$ **395**	409	$ **775**	817
Provision for loan and lease losses	**149**	75	**277**	139
Noninterest income:				
Service charges on deposits	**111**	111	**208**	213
Electronic payment processing	**52**	49	**99**	92
Investment advisory income	**20**	24	**38**	46
Other noninterest income	**23**	27	**42**	52
Noninterest expense:				
Salaries, incentives and benefits	**122**	126	**247**	254
Net occupancy and equipment expenses	**54**	49	**107**	97
Other noninterest expenses	**156**	135	**303**	258
Income before taxes	**120**	235	**228**	472
Applicable income tax expense	**42**	83	**80**	167
Net income	$ **78**	152	$ **148**	305
Average Balance Sheet Data				
Consumer loans	$ **13,180**	12,557	$ **13,178**	12,457
Commercial loans	**5,405**	5,520	**5,481**	5,413
Demand deposits	**6,352**	6,024	**6,250**	5,857
Interest checking	**7,594**	8,116	**7,501**	8,043
Savings and money market	**16,752**	16,536	**16,493**	16,286
Other time	**17,652**	11,837	**17,586**	12,774

Net income decreased $74 million, or 49%, compared to the second quarter of 2008 resulting from lower net interest income, a higher provision for loan and lease losses and higher allocated FDIC insurance costs including a special assessment on the Bancorp. Net interest income decreased $14 million, or four percent, as customers shifted from lower interest earning savings and money market accounts to higher yielding other time deposit accounts, which represent balances on certificates of deposit. Average loans and leases increased five percent compared to the second quarter of 2008 as average home equity lines and loans increased $752 million, or eight percent, and credit card balances increased by $188 million, or 13%. The increase in home equity lines and loans is attributed to a decline in interest rates from the second quarter of 2008. The increase in credit card balances resulted from an increased focus on relationships with current customers through the cross selling of credit cards. Average core deposits increased nine percent over the second quarter of 2008 with 28% growth in consumer certificates of deposits offset by a seven percent decrease in interest checking deposits. Net charge-offs as a percent of average loan and leases increased to 323 bp from 147 bp in the second quarter of 2008. Net charge-offs increased in comparison to the prior year quarter as a result of higher charge-offs involving commercial loans reflecting borrower stress, home equity lines and loans from a decrease in home prices within the Bancorp s footprint and

credit card charge-offs due to borrower stress and an increase in consumer bankruptcy fillings.

Noninterest income decreased three percent compared to the second quarter of 2008 as charges on consumer deposits decreased $4 million, or three percent due to lower transaction volumes. Noninterest expense increased $22 million, or seven percent, compared to the second quarter of 2008 primarily due to higher FDIC insurance costs, which increased $29 million. FDIC insurance costs increased due to higher assessment rates and the allocation of a portion of a special assessment incurred by the Bancorp in the second quarter of 2009. Net occupancy and equipment costs increased $5 million but were offset by a decrease of $4 million in salaries and employee benefits.

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

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 or pools of loans or lines of credit and all associated hedging activities. Other indirect lending activities include loans to consumers through mortgage brokers, automobile dealers and federal and private student education loans. The table below contains selected financial data for the Consumer Lending segment.

TABLE 21: Consumer Lending

($ in millions)	For the three months ended June 30, 2009	2008	For the six months ended June 30, 2009	2008
Income Statement Data				
Net interest income	**$ 130**	96	**$ 262**	209
Provision for loan and lease losses	**164**	103	**297**	180
Noninterest income:				
Mortgage banking net revenue	**140**	78	**271**	170
Other noninterest income	**50**	8	**74**	28
Noninterest expense:				
Salaries, incentives and benefits	**56**	34	**100**	73
Other noninterest expenses	**95**	54	**161**	104
Income (loss) before taxes	**5**	(9)	**49**	50
Applicable income tax expense	**2**	(3)	**17**	17
Net income (loss)	**$ 3**	$ (6)	**$ 32**	$ 33
Average Balance Sheet Data				
Residential mortgage loans	**$ 11,397**	10,806	**$ 11,081**	11,017
Automobile loans	**7,895**	7,486	**7,870**	8,523
Home equity	**1,016**	1,159	**1,033**	1,188
Consumer leases	**666**	791	**700**	789

Net income increased $9 million compared to the second quarter of 2008 as the growth in net interest income, mortgage banking net revenue, and securities gains more than offset growth in provision for loan and lease losses and the increase in loan processing expenses. Net interest income increased $34 million compared to the second quarter of 2008, driven primarily by a higher mortgage available-for-sale balance of $1.6 billion combined with lower funding costs, consistent with market conditions. Net charge-offs as a percent of average loan and leases increased from 218 bp in the second quarter of 2008 to 362 bp in the second quarter of 2009. Net charge-offs on residential mortgage loans and automobile loans increased $48 million and $8 million, respectively, compared to prior year. Residential mortgage charge-offs increased due to a weakening economy and deteriorating real estate values within the Bancorp s footprint, particularly in Michigan and Florida. During the second quarter of 2009, Michigan and Florida accounted for approximately 75% of the residential mortgage charge-offs. The segment continues to focus on managing credit risk through the restructuring of certain residential mortgage loans and careful consideration of underwriting and collection standards. As of June 30, 2009, the Bancorp had restructured approximately $760 million of residential mortgage loans that are still accruing interest because they are in compliance with their modified terms. Automobile charge-offs increased from the prior year s comparable period due to the impact of deteriorating economic conditions across the footprint.

Mortgage banking net revenue increased due to strong growth in originations and high sales margins during the second quarter of 2009. Consumer Lending had mortgage originations of $6.9 billion, an increase of 109% over the same quarter last year. The Bancorp remains

committed to being a prime mortgage originator and has benefited from a decrease in interest rates during the latter part of 2008 and into the second quarter of 2009. Loan processing expense grew $12 million, or 111%, compared to the second quarter of 2008 due to the growth in mortgage originations. FDIC insurance expense increased $11 million due to increased assessment rates and an allocation of a portion of a special assessment incurred on the Bancorp in the second quarter of 2009.

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Processing Solutions

Fifth Third Processing Solutions provides electronic funds transfer, debit, credit and merchant transaction processing, operates the Jeanie® ATM network and provides other data processing services to affiliated and unaffiliated customers. On June 30, 2009, the Bancorp completed the Processing Business Sale, which represents the sale of a majority interest in the Bancorp s merchant acquiring and financial institutions processing businesses, which make up a significant portion of the Processing Solutions segment. As a result of this transaction, on June 30, 2009, the Bancorp deconsolidated its remaining interest in the merchant acquiring and financial institution processing business. The income statement below reflects the results of operations for this business for the three and six months ended June 30, 2009 and 2008. The Bancorp has retained its retail credit card and commercial multi-card service business, which in future reporting periods will be included in the Consumer Lending and Commercial Banking business segments, respectively.

The table below contains selected financial data for the Processing Solutions segment, which is included in the Condensed Consolidated Financial Statements.

TABLE 22: Processing Solutions

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Income Statement Data				
Net interest income	**$ 4**	(1)	**$ 7**	(1)
Provision for loan and lease losses	**5**	4	**8**	7
Noninterest income:				
Financial institutions processing	**92**	96	**187**	186
Merchant processing	**97**	89	**178**	166
Card issuer interchange	**20**	21	**39**	40
Other noninterest income	**9**	10	**20**	23
Noninterest expense:				
Salaries, incentives and benefits	**21**	20	**41**	40
Payment processing expense	**73**	65	**138**	129
Other noninterest expenses	**49**	52	**99**	104
Income before taxes	**74**	74	**145**	136
Applicable income tax expense	**26**	26	**51**	48
Net income	**$ 48**	48	**$ 94**	88

Net income was flat compared to the second quarter of 2008 as increases in merchant processing revenue were offset by a decrease in financial institution processing and increase in payment processing expense. Merchant processing revenue increased approximately $8 million, or 10%, over the same quarter last year from higher debit and credit processing revenue. Financial institutions processing revenues decreased $4 million, or five percent, compared to the second quarter of 2008 as a result of a decrease in pass through fees and declines in contract cancellation fees.

Payment processing expense increased $8 million, or 11% compared to the second quarter of 2008 due to a strong increase in debit transaction processing costs and a nine percent increase in merchant processing customer locations as of June 30, 2009 compared to June 30, 2008.

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

Investment Advisors

Investment Advisors provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. The Bancorp s primary services include investments, private banking, trust, asset management, retirement plans and custody. Fifth Third Securities, Inc., (FTS) an indirect wholly-owned subsidiary of the Bancorp, offers full service retail brokerage services to individual clients and broker dealer services to the institutional marketplace. Fifth Third Asset Management, Inc., an indirect wholly-owned subsidiary of the Bancorp, provides asset management services and also advises the Bancorp s proprietary family of mutual funds. The table below contains selected financial data for the Investment Advisors segment.

TABLE 23: Investment Advisors

($ in millions)	For the three months ended June 30, 2009	2008	For the six months ended June 30, 2009	2008
Income Statement Data				
Net interest income	**$ 39**	49	**$ 76**	97
Provision for loan and lease losses	**18**	5	**27**	10
Noninterest income:				
Investment advisory income	**76**	93	**153**	188
Other noninterest income	**6**	8	**12**	15
Noninterest expense:				
Salaries, incentives and benefits	**37**	40	**69**	81
Other noninterest expenses	**51**	59	**101**	113
Income before taxes	**15**	46	**44**	96
Applicable income tax expense	**5**	16	**15**	34
Net income	**$ 10**	$ 30	**$ 29**	$ 62
Average Balance Sheet Data				
Loans and leases	**$ 3,202**	3,604	**$ 3,244**	3,521
Core deposits	**4,853**	4,796	**4,687**	4,975

Net income decreased $20 million compared to the second quarter of 2008 due to decreases in investment advisory revenue, net interest income and an increase in provision expense, which were partially offset by a decline in operating expense. Investment Advisors realized average loan declines of 11% and average core deposit increased one percent compared to the second quarter of 2008.

Noninterest income decreased $19 million, or 19%, compared to the second quarter of 2008, as investment advisory income decreased 19%, to $76 million, with private client services income declining $7 million, or 18% and institutional income declining $5 million, or 23%, driven by lower asset values on assets managed compared to the second quarter of 2008. Included within investment advisory income is securities and brokerage income, which declined $6 million, or 21%, compared to the second quarter of 2008, reflecting a decline in transaction-based revenue as well as the continued shift in assets from equity products to lower yielding money market funds due to market volatility.

Noninterest expense decreased $11 million, or 11%, primarily due to a $7 million decline in expenses allocated to the segment as a result of a decrease in business activity and a $3 million decline in compensation and bonuses within salaries, incentives and benefits. Compensation expense and incentive compensation decreased as the number of employees declined and bonuses were based on lower revenue levels. As of June 30, 2009, the Bancorp had $180 billion in assets under care and $24 billion in managed assets.

General Corporate and Other

General Corporate and Other includes the unallocated portion of the investment securities portfolio, securities gains/losses, certain non-core deposit funding, unassigned equity, provision expense in excess of net charge-offs, the payment of preferred stock dividends and certain support activities and other items not attributed to the business segments.

The second quarter of 2009 results of General Corporate and Other were primarily impacted by a $1.8 billion pre-tax gain ($1.1 billion after tax) resulting from the Processing Business Sale on June 30, 2009. In addition the provision for loan and lease losses increased from $375 million in the second quarter of 2008 to $416 million in the second quarter of 2009, due to a continued decline in credit quality and decrease in real estate values across much of the Bancorp s footprint. The results in the second quarter of 2008 included a leveraged lease charge of approximately $130 million, both pre-tax and after-tax, reflected as a reduction in interest income and an increase of approximately $140 million in tax expense.

Quantitative and Qualitative Disclosures About Market Risk (Item 3)

RISK MANAGEMENT OVERVIEW

Managing risk is an essential component of successfully operating a financial services company. The Bancorp s risk management function is responsible for the identification, measurement, monitoring, control and reporting of risk and mitigation of those risks that are inconsistent with the Bancorp s risk profile. The Enterprise Risk Management division (ERM), led by the Bancorp s Chief Risk Officer, ensures consistency in the Bancorp s approach to managing and monitoring risk 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 risks faced by the Bancorp include, but are not limited to, credit, market, liquidity, operational and regulatory compliance. ERM includes the following key functions:

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 grading system, 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 the line of business risk managers, affiliates and lines of business to maintain processes to monitor and manage all aspects of operational risk including ensuring consistency in application of enterprise operational risk programs, Sarbanes-Oxley compliance, and serving as a policy clearinghouse for the Bancorp, including policies relating to credit, market and operational risk. In addition, the Bank Protection function 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 the Treasury, Mortgage Company, and Capital Markets groups and utilizing a value at risk model for Bancorp market risk exposure;

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

The ERM division creates and maintains other functions, committees or processes as are necessary to effectively manage credit, market and operational 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 credit,

market, operational, regulatory compliance and strategic risk management activities 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. These committees include the Market Risk Committee, the Corporate Credit Committee, the Credit Policy Committee, the Operational Risk Committee, the Capital Committee, the Loan Loss Reserve Committee, the Management Compliance Committee, the Retail Distribution Governance Committee, and the Executive Asset Liability Committee. There are also new products and initiatives processes applicable to every line of business to ensure an appropriate standard readiness assessment is performed before launching a new product or initiative. Significant risk policies approved by the management governance committees are also reviewed and approved by the Risk and Compliance Committee of the Board of Directors.

Finally, Credit Risk Review is an independent function responsible for evaluating the sufficiency of underwriting, documentation and approval processes for consumer and commercial credits, counter-party credit risk, the accuracy of risk grades assigned to commercial credit exposure, appropriate accounting for charge-offs, and non-accrual 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.

Quantitative and Qualitative Disclosures About Market Risk (continued)

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 monthly management reviews of large credit exposures and credits experiencing deterioration of credit quality. Lending officers with the authority to extend credit are delegated specific authority amounts, the utilization of which is closely monitored. Underwriting activities are centralized, and ERM manages the policy and the authority delegation process directly. The Credit Risk Review function, which reports to the Risk and Compliance Committee of the Board of Directors, 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 required allowances 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. 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 actual 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. Scoring systems, various analytical tools and delinquency monitoring are used to assess the credit risk in the Bancorp s homogenous consumer loan portfolios.

Overview

General economic conditions continued to deteriorate from the second quarter of 2008, which had an adverse impact across the majority of the Bancorp s loan and lease products. Geographically, the Bancorp experienced the most stress in the states of Michigan and Florida due to the decline in real estate prices. Real estate price 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 portfolios, the commercial homebuilder and developer, non-owner occupied residential mortgage and brokered home equity portfolios exhibited the most stress. Management suspended new lending to commercial non-owner occupied real estate in the second quarter of 2008, discontinued the origination of brokered home equity products and raised underwriting standards across both the consumer and commercial loan product offerings. During the fourth quarter of 2008, in an effort to reduce loan exposure to the real estate and construction industries and obtain the highest realizable value, the Bancorp sold or moved to held-for-sale $1.3 billion in commercial loans. In the second quarter of 2009, the Bancorp continued to aggressively engage in other loss mitigation techniques such as reducing lines of credit, restructuring certain consumer and commercial loans, tightening underwriting standards on commercial loans and across the consumer loan portfolio as well as expanding commercial and consumer loan workout teams. The following credit information presents the Bancorp s loan portfolio diversification, an analysis of nonperforming loans and loans charged-off, and a discussion of the allowance for credit losses.

Commercial Portfolio

The Bancorp s credit risk management strategy includes minimizing concentrations of risk through diversification. Table 24 provides breakouts of the total commercial loan and lease portfolio, including held-for-sale, by major 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 portfolio. The Bancorp has commercial loan concentration limits based on industry, lines of business within the commercial segment and real estate project type.

The risk within the commercial real estate portfolio is managed and monitored through an underwriting process utilizing detailed origination policies, continuous loan level reviews, the 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 occupied, non-owner occupied and construction lending. Included in the policies are maturity and amortization terms, maximum loan-to-values (LTV),

minimum debt service coverage ratios, construction loan monitoring procedures, appraisal requirements, pre-leasing requirements (as applicable) and sensitivity and pro-forma analysis requirements. In the second quarter of 2009, commercial underwriting standards were further tightened on both new commercial loan originations as well as loan renewals with existing customers.

The commercial real estate portfolio is diversified by product type, loan size and geographical location with concentration levels established to manage the exposure. Appraisals are obtained from qualified appraisers and are reviewed by an independent appraisal review group to ensure independence and consistency in the valuation process. Appraisal values are updated on an as needed basis, in conformity with market conditions and regulatory requirements.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 24: Commercial Loan and Lease Portfolio *(a)*

	2009			2008		
As of June 30 ($ in millions)	**Outstanding**	**Exposure**	**Nonaccrual**	**Outstanding**	**Exposure**	**Nonaccrual**
By industry:						
Real estate	**$ 10,936**	**12,694**	**819**	$ 12,796	15,733	458
Manufacturing	**7,157**	**13,660**	**135**	7,507	14,485	72
Financial services and insurance	**4,753**	**9,390**	**27**	2,917	7,371	28
Construction	**4,411**	**6,152**	**927**	5,260	8,089	486
Healthcare	**3,364**	**5,163**	**104**	2,916	4,713	18
Retail trade	**2,998**	**5,898**	**149**	4,194	7,417	74
Business services	**2,808**	**4,979**	**40**	2,865	5,111	52
Transportation and warehousing	**2,617**	**3,066**	**37**	2,876	3,300	27
Wholesale trade	**2,421**	**4,572**	**47**	3,200	5,537	26
Other services	**1,178**	**1,628**	**28**	1,174	1,662	17
Accommodation and food	**1,065**	**1,516**	**33**	1,186	1,628	63
Individuals	**972**	**1,194**	**37**	1,149	1,493	33
Communication and information	**894**	**1,475**	**16**	928	1,583	21
Mining	**818**	**1,237**	**29**	741	1,292	3
Public administration	**752**	**947**		859	1,069	1
Entertainment and recreation	**736**	**968**	**16**	680	941	18
Agribusiness	**606**	**749**	**15**	656	829	7
Utilities	**483**	**1,240**		473	1,297	
Other	**222**	**486**	**3**	934	1,590	82
Total	**$ 49,191**	**77,014**	**2,462**	$ 53,311	85,140	1,486
By loan size:						
Less than $200,000	**3%**	**2**	**4**	3	2	5
$200,000 to $1 million	**11**	**9**	**19**	13	10	16
$1 million to $5 million	**24**	**20**	**39**	27	23	40
$5 million to $10 million	**23**	**21**	**18**	24	22	18
$10 million to $25 million	**15**	**16**	**14**	13	14	18
Greater than $25 million	**24**	**32**	**6**	20	29	3
Total	**100%**	**100**	**100**	100	100	100
By state:						
Ohio	**28%**	**31**	**14**	25	29	13
Michigan	**16**	**15**	**18**	19	17	30
Florida	**8**	**7**	**22**	10	8	29
Illinois	**8**	**9**	**9**	8	9	6
Indiana	**7**	**7**	**7**	7	7	7
Kentucky	**5**	**5**	**5**	5	5	5
North Carolina	**3**	**3**	**6**	4	3	1
Tennessee	**2**	**2**	**4**	3	2	1
Pennsylvania	**2**	**2**		2	2	1
All other states	**21**	**19**	**15**	17	18	7
Total	**100%**	**100**	**100**	100	100	100

(a) *Outstanding reflects total commercial customer loan and lease balances, including held for sale and net of unearned income, and exposure reflects total commercial customer lending commitments.*

As of June 30, 2009, the Bancorp had homebuilder exposure of $2.9 billion and outstanding loans of $2.3 billion with $562 million in nonaccrual portfolio commercial loans and $158 million in nonaccrual held-for-sale commercial loans. As of June 30, 2009, approximately 41% of the outstanding loans to homebuilders are located in the states of Michigan and Florida and represent approximately 50% of the homebuilder nonaccrual loans. As of June 30, 2008, the Bancorp had homebuilder exposure of $4.9 billion, outstanding loans of $3.3 billion with $547 million in nonaccrual loans. As of December 31, 2008, the Bancorp had homebuilder exposure of $4.0 billion, outstanding loans of $2.7 billion with $581 million in nonaccrual loans.

As of June 30, 2009, the commercial portfolio had $1.2 billion in exposure to automobile suppliers with $594 million outstanding of which $3 million were nonaccrual loans and $2.4 billion of direct exposure to automobile dealers with $1.5 billion outstanding of which $71 million were nonaccrual loans.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

Table 25 provides further information on the location of commercial real estate and construction industry loans and leases.

TABLE 25: Outstanding Commercial Real Estate and Construction Loans by State

As of June 30 ($ in millions)	2009	2008
Ohio	**$ 3,972**	4,385
Michigan	**3,524**	4,725
Florida	**2,041**	2,816
Illinois	**1,280**	1,414
Indiana	**1,022**	1,284
North Carolina	**743**	456
Kentucky	**711**	869
Tennessee	**388**	517
All other states	**1,666**	1,590
Total	**$ 15,347**	18,056

Residential Mortgage Portfolio

The Bancorp manages credit risk in the residential 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.

Certain mortgage products have contractual features that may increase credit exposure to the Bancorp in the event of a decline in housing prices. 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% (80/20 loans) and interest-only loans. Table 26 shows the Bancorp s originations of these products for the three and six months ended June 30, 2009 and 2008. The originations of loans with LTV ratios greater than 80% with no mortgage insurance primarily include loans insured by the Federal Housing Administration. The Bancorp does not originate mortgage loans that permit customers to defer principal payments or make payments that are less than the accruing interest.

TABLE 26: Residential Mortgage Originations

	2009		2008	
($ in millions)	Amount	Percent of total	Amount	Percent of total
For the three months ended June 30:				
Greater than 80% LTV with no mortgage insurance	**$ 781**	**11%**	$ 4	%
Interest-only	**34**	**1**	189	6
Greater than 80% LTV and interest-only	**3**		2	
80/20 loans	**40**	**1**	4	
For the six months ended June 30:				
Greater than 80% LTV with no mortgage insurance	**809**	**7**	11	
Interest-only	**115**	**1**	622	9
Greater than 80% LTV and interest-only	**3**		2	
80/20 loans	**50**		35	1

Table 27 provides the amount of these loans as a percent of the residential mortgage loans in the Bancorp s portfolio and the delinquency rates of these loan products as of June 30, 2009 and 2008. The balance of the mortgage portfolio not included in Table 27 is characterized by in-footprint mortgage loans with less than 80% loan-to-value, with approximately two-thirds representing fixed rate mortgages. Resets of rates on adjustable

rate mortgages are not expected to have a material impact on credit costs, as more than 99% of remaining 2009 resets are expected to see either no increase or a decrease in monthly payments, due to the decrease in mortgage rates over the past year.

TABLE 27: Residential Mortgage Outstandings

	2009			2008		
As of June 30 ($ in millions)	**Amount**	**Percent of total**	**Delinquency Ratio**	**Amount**	**Percent of total**	**Delinquency Ratio**
Greater than 80% LTV with no mortgage insurance	**$ 1,846**	**22%**	**12.16%**	$ 2,196	22%	9.25%
Interest-only	**1,515**	**18**	**6.22**	1,724	17	2.02
Greater than 80% LTV and interest-only	**387**	**5**	**10.39**	444	4	7.25
80/20 loans	**1**					

The Bancorp previously originated certain non-conforming residential mortgage loans known as Alt-A loans. Borrower qualifications were comparable to other conforming residential mortgage products. As of June 30, 2009, the Bancorp held $107 million of Alt-A mortgage loans in its portfolio with approximately $18 million in nonaccrual.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

The Bancorp previously sold certain mortgage products in the secondary market with credit recourse. The outstanding balances and delinquency rates for those loans sold with credit recourse as of June 30, 2009 and 2008 were $1.2 billion and 7.49%, and $1.4 billion and 4.81%, respectively. At June 30, 2009 and 2008, the Bancorp maintained a credit loss reserve on these loans sold with credit recourse of approximately $20 million and $14 million, respectively. See Note 10 of the Notes to Condensed Consolidated Financial Statements for further information.

Home Equity Portfolio

The home equity portfolio is characterized by 86% of outstanding balances within the Bancorp s Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois. The portfolio has an average FICO score of 730 as of June 30, 2009, compared with 733 at June 30, 2008 and 734 at June 30, 2007. The Bancorp stopped origination of brokered home equity loans during the fourth quarter of 2007. In addition, 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. Further detail on location and origination LTV ratios is included in Table 28.

TABLE 28: Home Equity Outstandings

	2009			2008		
As of June 30 ($ in millions)	**LTV less than 80%**	**LTV greater than 80%**	**Delinquency Ratio**	**LTV less than 80%**	**LTV greater than 80%**	**Delinquency Ratio**
Ohio	**$ 2,048**	**2,045**	**1.76%**	$ 1,874	2,016	1.40%
Michigan	**1,482**	**1,284**	**2.74**	1,387	1,289	1.95
Illinois	**904**	**599**	**2.63**	710	557	1.67
Florida	**645**	**244**	**5.15**	619	291	2.92
Indiana	**642**	**595**	**2.24**	608	614	1.80
Kentucky	**547**	**566**	**1.88**	503	573	1.49
All other states	**259**	**640**	**4.74**	470	910	2.56
Total	**$ 6,527**	**5,973**	**2.73%**	$ 6,171	6,250	1.84%

Analysis of Nonperforming Assets

A summary of nonperforming assets is included in Table 29. Nonperforming assets include: (i) nonaccrual loans and leases for which ultimate collectibility of the full amount of the principal and/or interest is uncertain; (ii) restructured consumer loans which are 90 days past due based on the restructured terms; (iii) restructured commercial loans which have not yet met the requirements to be classified as a performing asset and (iv) other assets, including other real estate owned and repossessed equipment. Loans are placed on nonaccrual status when the principal or interest is past due 150 days or more (unless the loan is both well secured and in process of collection) and payment of the full principal and/or interest under the contractual terms of the loan is not expected. Additionally, loans are placed on nonaccrual status upon deterioration of the financial condition of the borrower. 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 principal is deemed a loss, the loss amount is charged off to the allowance for loan and lease losses.

Prior to the first quarter of 2009, certain consumer loans (including residential mortgage loans, home equity loans and automobile loans) modified in a troubled debt restructuring (TDR) were maintained on nonaccrual status until the Bancorp believed repayment under the revised terms was reasonably assured and a sustained period of repayment performance was achieved (typically defined as six months for a monthly amortizing loan). Beginning with the first quarter of 2009, based on published guidance with respect to TDR s from certain banking regulators and to conform to general practices within the banking industry, the Bancorp determined it was appropriate to maintain these consumer loans modified as part of a TDR on accrual status, provided there is reasonable assurance of repayment and of performance according to the modified terms based upon a current, well-documented credit evaluation. Management believes this policy is reflective of recent regulatory guidance and provides better comparability to other financial institutions. Accordingly, during the first quarter of 2009, the Bancorp reclassified from

nonaccrual to accrual status the consumer loans modified as part of a TDR that were less than 90 days past due as measured by their restructured terms. For comparability purposes, prior periods were adjusted to reflect this reclassification. The income statement effect of this reclassification was immaterial to the Bancorp s Condensed Consolidated Financial Statements. The effect of this reclassification on other amounts previously reported in prior periods is as follows ($ in millions):

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 29: Impact of Policy Change on Reported Restructured Loans

December 31, 2008 ($ in millions)	As Previously Reported	As Reflected Under New Policy
Restructured loans (nonaccrual)		
Residential mortgage loans	$ 342	20
Home equity	196	29
Automobile loans	6	1
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned	2.96%	2.38

June 30, 2008 ($ in millions)	As Previously Reported	As Reflected Under New Policy
Restructured loans (nonaccrual)		
Residential mortgage loans	187	24
Home equity	116	17
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned	2.56%	2.26

Total nonperforming assets, including loans held-for-sale, were $3.2 billion at June 30, 2009, compared to $2.5 billion at December 31, 2008 and $1.9 billion at June 30, 2008. At June 30, 2009 and December 31, 2008, $352 million and $473 million, respectively, of nonaccrual commercial loans were held-for-sale. The nonaccrual loans in held for sale consisted primarily of real estate secured loans and construction loans in Michigan and Florida, and were carried at the lower of cost or market. Excluding the held-for-sale nonaccrual loans, nonperforming assets as a percentage of total loans, leases and other assets, including other real estate owned, as of June 30, 2009 was 3.48% compared to 2.38% as of December 31, 2008 and 2.26% as of June 30, 2008. The composition of nonaccrual credits continues to be concentrated in real estate as 71% of nonaccrual credits were secured by real estate as of June 30, 2009 compared to approximately 82% as of December 31, 2008 and June 30, 2008. Nonperforming assets as a percentage of total loans, leases and other assets, including other real estate owned, as of June 30, 2009 was 3.75% compared to 2.89% as of December 31, 2008 and 2.24% as of June 30, 2008.

Excluding the $352 million of commercial nonperforming loans held-for-sale, commercial nonperforming loans and leases increased from $1.5 billion at June 30, 2008 to $2.1 billion as of June 30, 2009. The majority of the increase was driven by the real estate and construction industries in the states of Florida and Michigan. These states combined to represent 40% of total commercial nonaccrual credits as of June 30, 2009. Of the $1.4 billion of real estate and construction nonaccrual credits, $562 million was related to homebuilders or developers.

Consumer nonperforming loans and leases increased from $240 million in the second quarter of 2008 to $477 million in the second quarter of 2009. The increase in consumer nonperforming loans is primarily attributable to declines in the housing markets in Michigan, Florida, and Ohio, the rise in unemployment, and a general weakening of the economy. Michigan, Florida, and Ohio accounted for 64% of total consumer nonperforming assets. The Bancorp has devoted significant attention to loss mitigation activities and has proactively restructured certain loans. Consumer restructured loans are reviewed, and if repayment is likely, are recorded as performing loans. Consumer restructured loans contributed $188 million to nonperforming loans as of June 30, 2009 compared to $56 million in restructured loans as of June 30, 2008. As of June 30, 2009, redefault rates for restructured residential mortgages loans, home equity loans and credit cards were 29%, 20% and 25% respectively.

For the second quarter of 2009, interest income of $91 million would have been recorded if the nonaccrual and renegotiated loans and leases on nonaccrual status had been current in accordance with their terms. Although this value helps demonstrate the costs of carrying nonaccrual credits, the Bancorp does not expect to recover the full amount of interest as nonaccrual loans and leases are generally carried below their principal balance.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 30: Summary of Nonperforming Assets and Delinquent Loans

($ in millions)	June 30, 2009	December 31, 2008	June 30, 2008
Nonaccrual loans and leases:			
Commercial loans	**$ 603**	541	407
Commercial mortgage loans	**760**	482	524
Commercial construction loans	**684**	362	537
Commercial leases	**51**	21	18
Residential mortgage loans	**262**	259	142
Home equity	**26**	26	35
Automobile loans	**1**	5	7
Other consumer loans and leases			
Restructured loans and leases (nonaccrual):			
Commercial loans	**9**		
Commercial mortgage loans	**3**		
Residential mortgage loans *(a)*	**98**	20	24
Home equity loans *(a)*	**31**	29	17
Automobile loans *(a)*		1	
Credit card	**59**	30	15
Total nonperforming loans and leases	**2,587**	1,776	1,726
Repossessed personal property and other real estate owned	**253**	230	210
Total nonperforming assets	**2,840**	2,006	1,936
Nonaccrual loans held for sale	**352**	473	
Total nonperforming assets including loans held for sale	**3,192**	2,479	1,936
Commercial loans	**142**	76	52
Commercial mortgage loans	**131**	136	149
Commercial construction loans	**60**	74	53
Commercial leases	**5**	4	1
Residential mortgage loans *(b)*	**242**	198	228
Home equity	**99**	96	76
Automobile loans	**18**	21	12
Credit card	**65**	56	33
Other consumer loans and leases		1	1
Total 90 days past due loans and leases	**$ 762**	662	605
Nonperforming assets as a percent of total loans, leases and other assets, including other real estate owned *(c)*	**3.48%**	2.38	2.26
Allowance for loan and lease losses as a percent of total nonperforming assets	**123%**	139	81

(a)

During the first quarter of 2009, the Bancorp modified its consumer nonaccrual policy to exclude troubled debt restructured 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.

(b) *Information for all periods presented excludes advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. As of June 30, 2009, December 31, 2008 and June 30, 2008, these advances were $64 million, $40 million and $27 million, respectively.*

(c) *Does not include loans held for sale.*

Analysis of Net Loan Charge-offs

Net charge-offs as a percent of average loans and leases were 308 bp for the second quarter of 2009, compared to 750 bp for the fourth quarter of 2008 and 166 bp for the second quarter of 2008. Table 31 provides a summary of credit loss experience and net charge-offs as a percentage of average loans and leases outstanding by loan category.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 31: Summary of Credit Loss Experience

($ in millions)	For the three months ended June 30, 2009	2008	For the six months ended June 30, 2009	2008
Losses charged off:				
Commercial loans	**$ (185)**	(109)	**$ (301)**	$ (148)
Commercial mortgage loans	**(89)**	(22)	**(168)**	(55)
Commercial construction loans	**(79)**	(49)	**(157)**	(121)
Commercial leases	**(1)**		**(1)**	
Residential mortgage loans	**(113)**	(63)	**(188)**	(98)
Home equity	**(90)**	(57)	**(163)**	(99)
Automobile loans	**(48)**	(35)	**(104)**	(79)
Credit card	**(47)**	(23)	**(85)**	(44)
Other consumer loans and leases	**(6)**	(7)	**(13)**	(14)
Total losses	**(658)**	(365)	**(1,180)**	(658)
Recoveries of losses previously charged off:				
Commercial loans	**8**	2	**21**	5
Commercial mortgage loans	**4**	1	**6**	2
Commercial construction loans			**2**	
Commercial leases				
Residential mortgage loans	**1**		**1**	
Home equity	**2**	3	**3**	4
Automobile loans	**12**	9	**22**	18
Credit card	**2**	2	**4**	4
Other consumer loans and leases	**3**	4	**5**	5
Total recoveries	**32**	21	**64**	38
Net losses charged off:				
Commercial loans	**(177)**	(107)	**(280)**	(143)
Commercial mortgage loans	**(85)**	(21)	**(162)**	(53)
Commercial construction loans	**(79)**	(49)	**(155)**	(121)
Commercial leases	**(1)**		**(1)**	
Residential mortgage loans	**(112)**	(63)	**(187)**	(98)
Home equity	**(88)**	(54)	**(160)**	(95)
Automobile loans	**(36)**	(26)	**(82)**	(61)
Credit card	**(45)**	(21)	**(81)**	(40)
Other consumer loans and leases	**(3)**	(3)	**(8)**	(9)
Total net losses charged off	**$ (626)**	(344)	**(1,116)**	(620)
Net charge-offs as a percent of average loans and leases (excluding held for sale):				
Commercial loans	**2.53%**	1.52%	**1.98%**	1.07%
Commercial mortgage loans	**2.73**	.66	**2.62**	.87
Commercial construction loans	**6.76**	3.46	**6.48**	4.32
Commercial leases	**0.02**	(.01)	**0.01**	(.01)

Total commercial loans	**2.81**	1.41	**2.44**	1.32
Residential mortgage loans	**5.17**	2.57	**4.21**	1.93
Home equity	**2.81**	1.83	**2.55**	1.61
Automobile loans	**1.65**	1.21	**1.91**	1.37
Credit card	**9.64**	4.93	**8.79**	4.86
Other consumer loans and leases	**1.95**	1.31	**1.79**	1.54
Total consumer loans	**3.48**	2.04	**3.15**	1.80
Total net losses charged off	**3.08%**	1.66%	**2.73%**	1.52%

The ratio of commercial loan net charge-offs to average commercial loans outstanding decreased to 2.81% in the second quarter of 2009 compared to 10.7% in the fourth quarter of 2008, and increased compared to 1.41% in the second quarter of 2008. The decrease compared to the fourth quarter of 2008 was due to charge-offs on $1.3 billion in criticized or impaired loans moved to held for sale or sold in the fourth quarter of 2008. The increase compared to the second quarter of 2008 was due to increases in net charge-offs in all categories of the commercial loan portfolios driven by deterioration in collateral values. The increase in the commercial mortgage and commercial construction captions were due to homebuilders and developers that were affected by the downturn in the real estate markets. Charge-offs for the second quarter of 2009 included $65 million related to homebuilders and developers. During the second quarter of 2009, approximately 44% of charge-offs greater than $2 million involved loans in the construction or real estate industries of which: 46% were located in Florida and 22% in Michigan, reflecting the real estate price deterioration in those regions. Increased charge-offs on the commercial loan portfolio were driven by commercial real estate and commercial construction related companies, which represented approximately 22% of charge-offs in the commercial loan portfolio.

Quantitative and Qualitative Disclosures About Market Risk (continued)

The ratio of consumer loan net charge-offs to average consumer loans outstanding increased to 348 bp in the second quarter of 2009 compared to 240 bp in the fourth quarter of 2008 and 204 bp in the second quarter of 2008. Residential mortgage charge-offs increased to $112 million in the second quarter of 2009 compared to $68 million in the fourth quarter of 2008 and $63 million in the second quarter of 2008. The increase from the fourth and second quarters of 2008 was due to increased foreclosure rates in the Bancorp s key lending markets and the related increase in severity of loss on mortgage loans. Florida, Michigan and Ohio continue to rank among the top ten states in both new foreclosures and total mortgage foreclosures. These foreclosures not only added to the volume of charge-offs, but also hampered the Bancorp s ability to recover the value of the homes collateralizing the mortgages as they contributed to declining home prices. Florida affiliates experienced the most stress and accounted for approximately 65% of the residential mortgage charge-offs in the second quarter. Compared to the second quarter of 2008, home equity net charge-offs increased $34 million to 281 bp of average loans, primarily due to increases in the Michigan and Florida affiliates and among those products originated through a broker channel. Brokered home equity loans represented 43% of home equity charge-offs during the second quarter of 2009, despite representing only 17% of home equity lines and loans as of June 30, 2009. 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. The ratio of automobile loan net charge-offs to average automobile loans increased to 165 bp in the second quarter of 2009 compared to 121 bp in the second quarter of 2008 due to an increase in net charge-offs on used automobiles of 77 bps, partially offset by a shift in the portfolio to a higher percentage of new automobiles, which have a lower level of loss severity. The net charge-off ratio on credit card balances increased compared to the same quarter last year due to seasoning within the credit card portfolio. The Bancorp employs a risk-adjusted pricing methodology to ensure adequate compensation is received for those products that have higher credit costs.

Allowance for Credit Losses

The allowance for credit losses is comprised of the allowance for loan and lease losses and the reserve for unfunded commitments. The allowance for loan and lease losses provides coverage for probable and estimable losses in the loan and lease portfolio. The Bancorp evaluates the allowance each quarter to determine its adequacy to cover inherent losses. Several factors are taken into consideration in the determination of the overall allowance for loan and lease losses, 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 allowance for loan and lease losses. 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 impact the portfolio. The Bancorp continues to monitor recent developments in the credit markets.

In the current year, the Bancorp has not substantively changed any material aspect of its overall approach in the determination of the allowance for loan and lease losses 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 allowance for loan and lease losses, the Bancorp maintains a reserve for unfunded commitments recorded in other liabilities in the Condensed Consolidated Balance Sheets. The methodology used to determine the adequacy of this reserve is similar to the Bancorp s methodology for determining the allowance for loan and lease losses. The provision for unfunded commitments is included in other noninterest expense in the Condensed Consolidated Statements of Income.

TABLE 32: Changes in Allowance for Credit Losses

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Allowance for loan and lease losses:				
Beginning balance	**$ 3,070**	1,205	**$ 2,787**	937
Net losses charged off	**(626)**	(344)	**(1,116)**	(620)
Provision for loan and lease losses	**1,041**	719	**1,814**	1,263

Ending balance	**$ 3,485**	1,580	**$ 3,485**	1,580
Reserve for unfunded commitments:				
Beginning balance	**$ 231**	$ 103	**$ 195**	95
Provision for unfunded commitments	**8**	10	**44**	18
Acquisitions		2		2
Ending balance	**$ 239**	115	**$ 239**	115

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Quantitative and Qualitative Disclosures About Market Risk (continued)

The allowance for loan and lease losses as a percent of the total loan and lease portfolio increased to 4.28% at June 30, 2009, compared to 3.31% at December 31, 2008 and 1.85% at June 30, 2008. This increase is reflective of a number of factors including: the increase in delinquencies, increased loss estimates due to the real estate price deterioration in some the Bancorp s key lending markets and declines in general economic conditions. These factors were the primary drivers of the increased reserve factors for most of the Bancorp s loan categories.

As discussed previously, nonaccrual loans and leases increased to $2.4 billion as of June 30, 2009. Impaired commercial loans, which require individual review to determine loan and lease reserves, increased $612 million from the second quarter 2008. Delinquency trends also increased across most product lines and credit grades from the prior year leading to increases in reserve factors for those products.

The Bancorp s determination of the allowance for commercial loans is sensitive to the risk grade 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 $208 million at June 30, 2009. 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 $103 million at June 30, 2009. As several quantitative and qualitative factors are considered in determining the allowance for loan and lease losses, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the allowance for loan and lease losses. They are intended to provide insights into the impact of adverse changes in risk grades and estimated loss rates and do not imply any expectation of future deterioration in the risk ratings or loss rates. Given current processes employed by the Bancorp, management believes the risk grades and estimated loss rates currently assigned are appropriate.

Real estate price deterioration, as determined by the Home Price Index, was most prevalent in Michigan due in part to cutbacks by automobile manufacturers, and Florida due to past real estate price appreciation and related over-development. The Bancorp has sizable exposure in both of these markets. The deterioration in real estate values increases the expected loss once a loan becomes delinquent, particularly for home equity loans with high LTV ratios.

Economic trends such as gross domestic product, unemployment rate, home sales and inventory and bankruptcy filings have historically provided indicators of trends in loan and lease loss rates. Compared to the prior year, negative trends in general economic conditions in the national and local economies caused increases in reserve factors used to determine the losses inherent within the loan and lease portfolio.

The Bancorp continually reviews its credit administration and loan and lease portfolio and makes changes based on the performance of its products. Over the past year, the Bancorp has reduced its lending to homebuilder and developers, tightened underwriting standards, restructured customer loans, and engaged in significant loss mitigation strategies.

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.

Earnings Simulation Model

The Bancorp employs a variety of measurement techniques to identify and manage its interest rate risk, including the use of an earnings simulation model to analyze the sensitivity of net interest income and certain noninterest items 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 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 will 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.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

The Bancorp s Executive Asset Liability Committee (ALCO), which includes senior management representatives and is accountable to the Risk and Compliance Committee of the Board of Directors, 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 and mortgage banking net revenue over 12-month and 24-month horizons assuming a 100 bp parallel ramped increase and a 200 bp parallel ramped increase in interest rates. The Fed Funds interest rate, targeted by the Federal Reserve at a range of 0% to 0.25%, is currently set at a level that would be negative in parallel ramped decrease scenarios; therefore, those scenarios were omitted from the interest rate risk analyses for June 30, 2009. In accordance with the current policy, the rate movements are assumed to occur over one year and are sustained thereafter.

The following table shows the Bancorp s estimated earnings sensitivity profile and ALCO policy limits as of June 30 2009:

TABLE 33: Estimated Earnings Sensitivity Profile

	Change in Earnings (FTE)		ALCO Policy Limits	
Change in Interest Rates (bp)	**12 Months**	**13 to 24 Months**	**12 Months**	**13 to 24 Months**
+200	(0.07)%	1.48	(5.00)	(7.00)
+100	(0.22)	0.21		

Economic Value of Equity

The Bancorp also employs economic value of equity (EVE) as a measurement tool in managing interest rate risk. Whereas the earnings simulation 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 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 balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving expected changes in pricing of the transaction deposit portfolios.

The following table shows the Bancorp s EVE sensitivity profile and the ALCO policy limits as of June 30, 2009:

TABLE 34: Estimated EVE Sensitivity Profile

Change in Interest Rates (bp)	**Change in EVE**	**ALCO Policy Limits**
+200	(2.21)%	(20.0)
+100	(0.68)	
-25	0.05	

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 earnings 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.

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 and cash flows 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 and swaptions. For further information on the Bancorp s overall interest rate risk management strategy and the notional amount and fair values of these derivatives as of June 30, 2009, see Note 9 of the Notes to Condensed Consolidated Financial Statements.

Portfolio Loans and Leases and Interest Rate Risk

Although the Bancorp s portfolio loans and leases contain both fixed and floating/adjustable rate products, the rates of interest earned by the Bancorp on the outstanding balances are generally established for a period of time. The interest rate sensitivity of loans and leases is directly related to the length of time the rate earned is established.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

Table 35 summarizes the expected principal cash flows of the Bancorp s portfolio loans and leases as of June 30, 2009:

TABLE 35: Portfolio Loan and Lease Principal Cash Flows

($ in millions)	Less than 1 year	1 5 years	Greater than 5 years	Total
Commercial loans	$ 15,226	11,414	1,769	28,409
Commercial mortgage loans	4,722	5,568	2,117	12,407
Commercial construction loans	2,591	1,081	819	4,491
Commercial leases	526	1,317	1,689	3,532
Subtotal - commercial loans and leases	23,065	19,380	6,394	48,839
Residential mortgage loans	2,294	2,929	3,266	8,489
Home equity	2,116	5,260	5,135	12,511
Automobile loans	3,174	5,035	532	8,741
Credit card	188	1,726		1,914
Other consumer loans and leases	451	463	21	935
Subtotal - consumer loans and leases	8,223	15,413	8,954	32,590
Total	$ 31,288	34,793	15,348	81,429

Segregated by interest rate type, the following is a summary of expected principal cash flows occurring after one year as of June 30, 2009:

TABLE 36: Portfolio Loan and Lease Principal Cash Flows Occurring After One Year

	Interest Rate	
($ in millions)	Fixed	Floating or Adjustable
Commercial loans	$ 3,544	9,639
Commercial mortgage loans	2,662	5,023
Commercial construction loans	804	1,096
Commercial leases	3,006	
Subtotal - commercial loans and leases	10,016	15,758
Residential mortgage loans	3,591	2,604
Home equity	2,038	8,357
Automobile loans	5,524	43
Credit card	810	916
Other consumer loans and leases	480	4
Subtotal - consumer loans and leases	12,443	11,924

Total	$ 22,459	27,682

Mortgage Servicing Rights and Interest Rate Risk

The net carrying amount of the MSR portfolio was $594 million and $697 million as of June 30, 2009 and June 30, 2008, 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. This strategy includes the purchase of free-standing derivatives (principal-only swaps, swaptions and interest rate swaps) and various available-for-sale securities.

Mortgage rates increased throughout the second quarter of 2009. This increase in rates caused prepayment assumptions to decrease and led to a recovery of $50 million in temporary impairment during the three months ended June 30, 2009, compared to a recovery of $80 million in temporary impairment during the second quarter of 2008. 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. Offsetting the mortgage servicing rights valuation, the Bancorp recognized net losses of $25 million and $84 million on its non-qualifying hedging strategy for the three months ended June 30, 2009 and 2008, respectively. The losses on non-qualifying hedging strategy are net of $41 million of gains on the sale of securities for the second quarter of 2009 and no sale activity for the second quarter of 2008. See Note 7 of the Notes to Condensed Consolidated Financial Statements for further discussion on servicing rights.

Quantitative and Qualitative Disclosures About Market Risk (continued)

Foreign Currency Risk

The Bancorp enters into foreign exchange derivative contracts to economically hedge certain foreign denominated loans. The derivatives are classified as free-standing instruments with the revaluation gain or loss being recorded in other noninterest income in the Condensed Consolidated Statements of Income. The balance of the Bancorp s foreign denominated loans at June 30, 2009 and June 30, 2008 was $300 million and $342 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 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 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 national money markets and delivering consistent growth in core deposits. The estimated weighted-average life of the available-for-sale portfolio was 4.3 years at June 30, 2009 based on current prepayment expectations. Of the $16.1 billion (fair value basis) of securities in the available-for-sale portfolio at June 30, 2009, $6.0 billion in principal and interest is expected to be received in the next 12 months, and an additional $2.2 billion is expected to be received in the next 13 to 24 months. In addition to available-for-sale securities, 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 jumbo fixed-rate residential mortgages, certain floating rate short-term commercial loans, certain floating-rate home equity loans, certain automobile loans and other consumer loans are also capable of being securitized, sold or transferred off-balance sheet. For the three months ended June 30, 2009 and 2008, loans totaling $6.4 billion and $4.0 billion, respectively, were sold, securitized or transferred off-balance sheet.

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 70% of its average total assets during the second quarter of 2009. 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 various regional Federal Home Loan Banks as a funding source. Certificates carrying a balance of $100,000 or more and deposits in the Bancorp s foreign branch located in the Cayman Islands are wholesale funding tools utilized to fund asset growth. Management does not rely on any one source of liquidity and manages availability in response to changing balance sheet needs.

The Bancorp has a shelf registration in place with the SEC permitting ready access to the public debt markets and qualifies as a well-known seasoned issuer under SEC rules. As of June 30, 2009, $2.7 billion of debt or other securities were available for issuance from this shelf registration under the current Bancorp s Board of Directors authorizations, however, access to these markets may depend on market conditions. The Bancorp also has $17.7 billion of funding available for issuance through private offerings of debt securities pursuant to its bank note program and currently has approximately $21.9 billion of borrowing capacity available through secured borrowing sources including the Federal Home Loan Banks and Federal Reserve Banks.

The Bancorp had senior debt credit ratings of Baa1 with Moody s, BBB with Standard & Poor s, A- with Fitch Ratings and A with DBRS Ltd July 31, 2009. The ratings mentioned above 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 medium-grade obligations 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 rating is considered satisfactory credit quality and is the third highest ranking within its overall classification system.

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

Quantitative and Qualitative Disclosures About Market Risk (continued)

CAPITAL MANAGEMENT

2008 Capital Actions

Management, including the Bancorp s Board of Directors, regularly reviews the Bancorp s capital position to help ensure it is appropriately positioned under various operating environments. Due to the deterioration in credit trends during 2008 and the uncertainty involving future economic trends, management carried out actions throughout 2008 to increase the Bancorp s capital position. During the second quarter of 2008, the Bancorp issued approximately $1 billion in Tier 1 capital in the form of convertible preferred shares (Series G). In addition, the Bancorp s Board of Directors reduced the dividend on its common stock to $.01 per share to allow for further retention of capital. On October 14, 2008, the U.S. Treasury announced a series of initiatives to strengthen market stability, improve the strength of financial institutions and enhance market liquidity. Among the initiatives, the U.S. Treasury created a voluntary Capital Purchase Program (CPP) as part of its efforts to provide a firmer capital foundation for financial institutions and to increase credit availability to consumers and businesses. As part of the program, eligible financial institutions were able to sell equity interests to the U.S. Treasury in amounts equal to one to three percent of the institution s risk-weighted assets. These equity interests constitute Tier 1 capital. On December 31, 2008, the Bancorp issued $3.4 billion in senior preferred stock (Series F) and related warrants under the terms of the CPP to the U.S. Treasury. The proceeds from the issuance to the U.S. Treasury were allocated based on the relative fair value of the warrants as compared with the fair value of the preferred stock. The fair value of the warrants was determined using a Black-Scholes valuation model. The assumptions used in the warrant valuation were a dividend yield of 0.4%, stock price volatility of 51% and a risk-free interest rate of 2.5%. The fair value of the preferred stock was determined using a discounted cash flow analysis based on assumptions regarding the market rate for preferred stock, which was estimated to be approximately 13% at the date of issuance.

Supervisory Capital Assessment Program (SCAP) Results

On May 7, 2009, the Bancorp announced its SCAP results. The results of the SCAP assessment indicated that the Bancorp s Tier 1 and Total capital ratios were expected to continue to exceed the levels required to maintain a well-capitalized status under the more adverse scenario as defined by the assessment. As a result, the Bancorp was not required to raise additional overall capital. The SCAP results did indicate that the Bancorp s Tier 1 common equity would be required to be augmented to maintain a capital buffer above the newly required four percent threshold of the Tier 1 common equity ratio under the more adverse scenario of the assessment. The total amount required, prior to considering activities by the Bancorp since the end of the fourth quarter of 2008, was $2.6 billion. After considering such activities, including the sale of the Bancorp s processing business, the indicated additional net Tier 1 common equity required was $1.1 billion. The $1.1 billion requirement was after consideration of the Bancorp s previously announced Processing Business Sale, but before consideration of any other measures that management believed to be available to the Bancorp to generate additional Tier 1 common equity. During the second quarter of 2009, in order to raise additional capital to augment Tier 1 common equity, the Bancorp completed a $1 billion common stock offering and an exchange of a portion of its Series G preferred stock. As a result of the Processing Business Sale, the common stock offering, and the exchange of the preferred stock, the Bancorp exceeded its Tier 1 common equity requirement under the SCAP assessment by approximately $650 million. Additionally, in July of 2009, the Bancorp sold its Visa, Inc. Class B common shares resulting in an additional net $206 million benefit to equity, as discussed in more detail in the Overview.

Common Stock Offering

On June 4, 2009, the Bancorp announced the successful completion of its $1 billion at-the-market offering of its common shares. Through this offering, the Bancorp issued approximately 158 million shares at an average price of $6.33.

Preferred Series G Tender Offer

On June 17, 2009, the Bancorp completed its offer to exchange 2,158.8272 shares of its common stock, no par value, and $8,250 in cash, for each set of 250 validly tendered and accepted depositary shares. The Bancorp issued approximately 60 million shares of common stock and paid $230 million in cash in exchange for 7 million depositary shares. Overall, $696 million in liquidation amount of the Bancorp s depositary shares were validly tendered, not withdrawn and exchanged, which represented 63% of the aggregate liquidation amount of its depositary shares. An aggregate of 7 million depositary shares representing 27,849 shares of Series G preferred stock were retired upon receipt. At the time of

exchange, the Bancorp recognized an increase to retained earnings and net income available to common shareholders of $35 million, calculated as the difference between the carrying amount of the Series G preferred stock exchanged and the sum of the fair value of the common stock plus cash delivered. After settlement of the exchange offer and as of June 30, 2009, 4,112,750 depositary shares representing 16,451 shares of Series G preferred stock remained outstanding. As a result of this exchange, the Bancorp increased its common equity by $441 million.

Capital Ratios

The Federal Reserve Board established quantitative measures that assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements (risk-based capital ratios). Additionally, the guidelines define well-capitalized ratios for Tier I and total risk-based capital as 6% and 10%, respectively. The Bancorp exceeded these well-capitalized ratios for all periods presented.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 37: Capital Ratios

($ in millions)	June 30, 2009	December 31, 2008	June 30, 2008
Tier I capital	**$ 13,742**	11,924	$ 9,829
Total risk-based capital	**18,072**	16,646	14,031
Risk-weighted assets *(a)*	**106,538**	112,622	115,481
Regulatory capital ratios:			
Tier I capital	**12.90%**	10.59	8.51%
Total risked-based capital	**16.96**	14.78	12.15
Tier I leverage	**12.17**	10.27	9.08
Tier I common equity	**6.94**	4.37	5.18

(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 resulting in the Bancorp s total risk weighted assets.

Dividend Policy and Stock Repurchase Program

The Bancorp s common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain adequate capital levels and alternative investment opportunities. In the second quarter of 2009, the Bancorp paid dividends per common share of $0.01, consistent with the $0.01 per share paid in the fourth quarter of 2008, and a decrease from the $0.15 paid in the second quarter of 2008.

As previously discussed, the Bancorp issued $3.4 billion in senior preferred stock and related warrants to the U.S. Treasury as part of the CPP in the fourth quarter of 2008. Upon issuance, the Bancorp agreed to limit dividends to common shareholders to the quarterly dividend rate paid prior to October 14, 2008, which was $0.15. This restriction is in effect until the earlier of December 31, 2011 or the date upon which the Series F senior preferred shares are redeemed in whole or transferred to an unaffiliated third party. In conjunction with the CPP, the Bancorp made a dividend payment of $43 million during the second quarter of 2009.

Under the agreement with the U.S. Treasury, as part of the CPP, the Bancorp is restricted in its repurchases of its common stock. This restriction is in effect until the earlier of December 31, 2011 or the date upon which the Series F senior preferred shares are redeemed in whole or transferred to an unaffiliated third party. The Bancorp s repurchase of equity securities is shown in Table 38.

TABLE 38: Share Repurchases

Period	Total Number of Shares Purchased *(a)*	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2009 April 30, 2009		$		19,201,518
May 1, 2009 May 31, 2009				19,201,518
June 1, 2009 June 30, 2009				19,201,518
Total		$		19,201,518

(a) *The Bancorp repurchased 218,469 shares during the second quarter of 2009 in connection with various employee compensation plans. These purchases are not included in the calculation for average price paid per share and do not count against the maximum number of shares that may yet be purchased under the Board of Directors authorization.*

OFF-BALANCE SHEET ARRANGEMENTS

The Condensed Consolidated Financial Statements include the accounts of the Bancorp and its majority-owned subsidiaries and variable interest entities (VIEs) in which the Bancorp has been determined to be the primary beneficiary. Other entities, including certain joint ventures, in which the Bancorp has the ability to exercise significant influence over operating and financial policies of the investee, but upon which the Bancorp does not possess control, are accounted for by the equity method and not consolidated. Those entities in which the Bancorp does not have the ability to exercise significant influence are generally carried at the lower of cost or fair value.

In the ordinary course of business, the Bancorp enters into financial transactions to extend credit and various forms of commitments and guarantees that may be considered off-balance sheet arrangements. These transactions involve varying elements of market, credit and liquidity risk. The nature and extent of these transactions are provided in Note 10 of the Notes to Condensed Consolidated Financial Statements. In addition, the Bancorp uses conduits, asset securitizations and certain defined guarantees to provide a source of funding. The use of these investment vehicles involves differing degrees of risk. A summary of these transactions is provided below.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

Commercial Loan Sales to a QSPE

Through June 30, 2009 and 2008, the Bancorp had transferred, subject to credit recourse, certain primarily floating-rate, short-term, investment grade commercial loans to an unconsolidated QSPE that is wholly owned by an independent third-party. The outstanding balance of these loans at June 30, 2009 and 2008 was $1.2 billion and $2.9 billion, respectively. These loans may be transferred back to the Bancorp upon the occurrence of certain specified events. These events include borrower default on the loans in certain circumstances, ineligible loans transferred by the Bancorp to the QSPE and the inability of the QSPE to issue commercial paper. The maximum amount of credit risk in the event of nonperformance by the underlying borrowers is approximately equivalent to the total outstanding balance. During the six months ended June 30, 2009 and 2008, the QSPE did not transfer any loans back to the Bancorp as a result of a credit event.

The QSPE issues commercial paper and uses the proceeds to fund the acquisition of commercial loans transferred to it by the Bancorp. The ability of the QSPE to issue commercial paper is a function of general market conditions and the credit rating of the liquidity provider. In the event the QSPE is unable to issue commercial paper, the Bancorp has agreed to provide liquidity support to the QSPE in the form of purchases of commercial paper, a line of credit to the QSPE and the repurchase of assets from the QSPE. As of June 30, 2009 and 2008, the liquidity asset purchase agreement was $2.4 billion and $3.5 billion, respectively. Beginning in 2008 and continuing through the second quarter of 2009, dislocation in the short-term funding market caused the QSPE difficulty in obtaining sufficient funding through the issuance of commercial paper. As a result, the Bancorp continued to provide liquidity support to the QSPE during 2009 through purchases of commercial paper. As of June 30, 2009, the Bancorp held approximately $1.2 billion of asset-backed commercial paper issued by the QSPE, representing 83% of the total commercial paper issued by the QSPE. As of June 30, 2008, the Bancorp held approximately $614 million of asset-backed commercial paper issued by the QSPE, representing 20% of the total commercial paper issued by the QSPE. In order to continue to qualify as a QSPE, at least 10% of the fair value of the commercial paper issued by the QSPE must be held by parties other than the Bancorp, its affiliates, or its agents. If the QSPE is unable to place sufficient commercial paper with investors or otherwise obtain the funding necessary to meet this qualification, the assets within the QSPE can either be transferred to the Bancorp under the Liquidity Asset Purchase Agreement or the QSPE may no longer qualify for off-balance sheet treatment resulting in the consolidation of the assets of the QSPE by the Bancorp at fair value. As of June 30, 2009 the carrying value of the assets held by the QSPE exceeded their fair value by approximately $134 million.

As of June 30, 2009 and 2008, there were no outstanding balances on the line of credit from the Bancorp to the QSPE. At June 30, 2009 and 2008, the Bancorp s loss reserve related to the liquidity support and credit enhancement provided to the QSPE was $44 million and $20 million, respectively, and was recorded in other liabilities on the Condensed Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of commercial loans held in its loan portfolio. Refer to the Credit Risk Management section for further discussion on the Bancorp s overall allowance calculations. For further information on the QSPE, see Note 7 of the Notes to Condensed Consolidated Financial Statements.

In June of 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140 and SFAS No. 167, Amendments to FASB Interpretation No. 46(R). The Bancorp has determined that upon adoption of SFAS No. 166 and 167 on January 1, 2010, it will be deemed the primary beneficiary (and therefore consolidator) of this QSPE. Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements for further details regarding SFAS No. 166 and 167 and the related impact of adoption by the Bancorp.

Loan Securitizations

The Bancorp utilizes securitization trusts, formed by independent third parties to facilitate the securitization process of residential mortgage loans, certain automobile loans and other consumer loans. During the first quarter of 2008, the Bancorp sold $2.7 billion of automobile loans in three separate transactions. Each transaction isolated the related loans through the use of a securitization trust or a conduit, formed as QSPEs, to facilitate the securitization process in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The QSPEs issued asset-backed securities with varying levels of credit subordination and payment priority. The investors in these securities have no credit recourse to the Bancorp s other assets for failure of debtors to pay when due. As of June 30, 2009, the Bancorp had not repurchased any previously transferred automobile loans from the QSPEs. For further information on these automobile securitizations, see Note 7 of the Notes to Condensed Consolidated Financial Statements. Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements for further information regarding the impact of SFAS No. 166 and 167 on the QSPEs related to the automobile securitizations.

Residential Mortgage Loan Sales

At June 30, 2009 and 2008, the Bancorp had provided credit recourse on residential mortgage loans sold to unrelated third parties of approximately $1.2 billion and $1.4 billion, respectively. In the event of any customer default, pursuant to the credit recourse provided, the Bancorp is required to reimburse the third party. The maximum amount of credit risk in the event of nonperformance by the underlying borrowers is equivalent to the total outstanding balance. At June 30, 2009 and 2008, the Bancorp maintained an estimated credit loss reserve on these loans sold with credit recourse of approximately $20 million and $14 million, respectively, recorded in other liabilities on the Condensed Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of residential mortgage loans held in its loan portfolio. For further information on the residential mortgage loans sold with credit recourse, see Note 7 of the Notes to Condensed Consolidated Financial Statements.

Quantitative and Qualitative Disclosures About Market Risk (continued)

Private Mortgage Insurance

For certain mortgage loans originated by the Bancorp, borrowers may be required to obtain private mortgage insurance (PMI) provided by third-party insurers. In some instances, these insurers cede a portion of the PMI premiums to the Bancorp, and the Bancorp provides reinsurance coverage within a specified range of the total PMI coverage. The Bancorp s reinsurance coverage typically ranges from 5% to 10% of the total PMI coverage. The Bancorp s maximum exposure in the event of nonperformance by the underlying borrowers is equivalent to the Bancorp s total outstanding reinsurance coverage, which was $182 million at June 30, 2009. As of June 30, 2009, the Bancorp maintained a reserve of approximately $30 million related to exposures within the reinsurance portfolio, compared to a reserve of $19 million as of March 31, 2009. The increase in the reserve was due to an increase in expected loss rates on the current portfolio. No reserve was deemed necessary as of June 30, 2008. During the second quarter of 2009, the Bancorp suspended the practice of providing reinsurance of private mortgage insurance.

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Controls and Procedures (Item 4)

The Bancorp conducted an evaluation, under the supervision and with the participation of the Bancorp s management, including the Bancorp s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bancorp s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on the foregoing, as of the end of the period covered by this report, the Bancorp s Chief Executive Officer and Chief Financial Officer concluded that the Bancorp s disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Bancorp files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and to provide reasonable assurance that information required to be disclosed by the Bancorp in such reports is accumulated and communicated to the Bancorp s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Bancorp s management also conducted an evaluation of internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Bancorp s internal control over financial reporting. Based on this evaluation, there has been no such change during the period covered by this report.

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Fifth Third Bancorp and Subsidiaries

Condensed Consolidated Financial Statements and Notes (Item 1)

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

($ in millions, except share data)	As of June 30, 2009	December 31, 2008	June 30, 2008
Assets			
Cash and due from banks	**$ 2,899**	2,739	2,853
Available-for-sale and other securities *(a)*	**16,061**	12,728	12,718
Held-to-maturity securities *(b)*	**357**	360	361
Trading securities	**1,354**	1,191	241
Other short-term investments	**513**	3,578	286
Loans held for sale *(c)*	**3,341**	1,452	889
Portfolio loans and leases:			
Commercial loans	**28,409**	29,197	28,958
Commercial mortgage loans	**12,407**	12,502	13,394
Commercial construction loans	**4,491**	5,114	6,007
Commercial leases	**3,532**	3,666	3,647
Residential mortgage loans *(d)*	**8,489**	9,385	9,866
Home equity	**12,511**	12,752	12,421
Automobile loans	**8,741**	8,594	8,362
Credit card	**1,914**	1,811	1,717
Other consumer loans and leases	**935**	1,122	1,152
Portfolio loans and leases	**81,429**	84,143	85,524
Allowance for loan and lease losses	**(3,485)**	(2,787)	(1,580)
Portfolio loans and leases, net	**77,944**	81,356	83,944
Bank premises and equipment	**2,440**	2,494	2,444
Operating lease equipment	**474**	463	364
Goodwill	**2,417**	2,624	3,603
Intangible assets	**133**	168	203
Servicing rights	**595**	499	701
Other assets	**7,456**	10,112	6,368
Total Assets	**$ 115,984**	119,764	$ 114,975
Liabilities			
Deposits:			
Demand	**$ 17,202**	15,287	16,259
Interest checking	**14,630**	14,222	14,002
Savings	**16,819**	16,063	16,602
Money market	**4,193**	4,689	6,806
Other time	**14,540**	14,350	9,839
Certificates - $100,000 and over	**10,688**	11,851	10,870
Foreign office and other	**2,748**	2,151	3,038
Total deposits	**80,820**	78,613	77,416
Federal funds purchased	**435**	287	2,447

Other short-term borrowings	**6,802**	9,959	5,628
Accrued taxes, interest and expenses	**959**	2,029	1,864
Other liabilities	**3,166**	3,214	1,820
Long-term debt	**10,102**	13,585	15,046
Total Liabilities	**102,284**	107,687	104,221
Shareholders' Equity			
Common stock *(e)*	**1,779**	1,295	1,295
Preferred stock *(f)*	**3,588**	4,241	1,082
Capital surplus *(g)*	**1,722**	848	583
Retained earnings	**6,663**	5,824	8,178
Accumulated other comprehensive income	**152**	98	(152)
Treasury stock	**(204)**	(229)	(232)
Total Shareholders Equity	**13,700**	12,077	10,754
Total Liabilities and Shareholders Equity	**$ 115,984**	119,764	$ 114,975

(a) *Amortized cost:* ***June 30, 2009 - $15,820****, December 31, 2008 - $12,550 and June 30, 2008 - $12,935.*

(b) *Market values:* ***June 30, 2009 - $357****, December 31, 2008 - $360 and June 30, 2008 - $361.*

(c) *Includes* ***$2,638****, $881 and $761 of residential mortgage loans held for sale measured at fair value at June 30, 2009, December 31, 2008 and June 30, 2008, respectively.*

(d) *Includes* ***$14,*** *$7 and $0 of residential mortgage loans measured at fair value at June 30, 2009, December 31, 2008 and June 30, 2008, respectively.*

(e) *Common shares: Stated value $2.22 per share; authorized 2,000,000,000; outstanding at* ***June 30, 2009 - 795,313,448 (excludes 6,190,740 treasury shares)****, December 31, 2008 -577,386,612 (excludes 6,040,492 treasury shares) and June 30, 2008 577,529,636 (excludes 5,897,468 treasury shares).*

(f) *317,680 shares of undesignated no par value preferred stock are authorized of which none had been issued; 5.0% cumulative Series F perpetual preferred stock with a $25,000 liquidation preference: 136,320 issued and outstanding at June 30, 2009; 8.5% non-cumulative Series G convertible (into 2,159.8272 common shares) perpetual preferred stock with a $25,000 liquidation preference: 46,000 authorized, 16,451 issued and outstanding at June 30, 2009; 7,250 shares of 8.0% cumulative Series D convertible (at $23.5399 per share) perpetual preferred stock with a stated value of $1,000 per share, which were issued and outstanding at June 30, 2008 and repurchased for $22 million and retired on November 26, 2008; 2,000 shares of 8.0% cumulative Series E perpetual preferred stock with a stated value of $1,000 per share, which were issued and outstanding at June 30, 2008 and repurchased for $6 million and retired on November 26, 2008.*

(g) *Includes ten-year warrants initially valued at $239 to purchase up to 43,617,747 shares of common stock, no par value, related to Series F preferred stock, at an initial exercise price of $11.72 per share.*

See Notes to Condensed Consolidated Financial Statements.

Fifth Third Bancorp and Subsidiaries

Condensed Consolidated Financial Statements and Notes (continued)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

($ in millions, except per share data)	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Interest Income				
Interest and fees on loans and leases	**$ 995**	1,050	**$ 1,992**	2,340
Interest on securities	**184**	155	**364**	307
Interest on other short-term investments		2	**1**	7
Total interest income	**1,179**	1,207	**2,357**	2,654
Interest Expense				
Interest on deposits	**258**	278	**532**	677
Interest on short-term borrowings	**12**	49	**37**	129
Interest on long-term debt	**78**	142	**181**	289
Total interest expense	**348**	469	**750**	1,095
Net Interest Income	**831**	738	**1,607**	1,559
Provision for loan and lease losses	**1,041**	719	**1,814**	1,263
Net Interest Income (Loss) After Provision for Loan and Lease Losses	**(210)**	19	**(207)**	296
Noninterest Income				
Electronic payment processing revenue	**243**	235	**466**	447
Service charges on deposits	**162**	159	**308**	307
Mortgage banking net revenue	**147**	86	**281**	182
Corporate banking revenue	**99**	111	**215**	218
Investment advisory revenue	**73**	92	**149**	185
Gain on sale of processing business	**1,764**		**1,764**	
Other noninterest income	**49**	49	**60**	228
Securities gains (losses), net	**5**	(10)	**(20)**	17
Securities gains, net - non-qualifying hedges on mortgage servicing rights	**41**		**57**	3
Total noninterest income	**2,583**	722	**3,280**	1,587
Noninterest Expense				
Salaries, wages and incentives	**346**	331	**673**	679
Employee benefits	**75**	60	**158**	145
Net occupancy expense	**79**	73	**158**	145
Payment processing expense	**75**	67	**141**	133
Technology and communications	**45**	49	**90**	96
Equipment expense	**31**	31	**62**	61
Other noninterest expense	**370**	247	**702**	317
Total noninterest expense	**1,021**	858	**1,984**	1,576
Income (Loss) Before Income Taxes	**1,352**	(117)	**1,089**	307
Applicable income tax expense	**470**	85	**157**	223

Net Income (Loss)		**882**	(202)		**932**	84
Dividends on preferred stock *(a)*		**26**			**103**	
Net Income (Loss) Available to Common Shareholders	**$**	**856**	(202)	**$**	**829**	84
Earnings Per Share	**$**	**1.35**	(0.37)	**$**	**1.37**	0.16
Earnings Per Diluted Share	**$**	**1.15**	(0.37)	**$**	**1.18**	0.16

(a) Dividends on preferred stock were $.185 million and $.370 million for the three and six months ended June 30, 2008, respectively.
See Notes to Condensed Consolidated Financial Statements.

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Fifth Third Bancorp and Subsidiaries

Condensed Consolidated Financial Statements and Notes (continued)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

($ in millions, except per share data)	For the six months ended June 30, 2009	2008
Total Shareholders Equity, beginning	**$ 12,077**	9,161
Net income	**932**	84
Other comprehensive income, net of tax:		
Change in unrealized gains and (losses):		
Available-for-sale securities *(a)*	**42**	(38)
Qualifying cash flow hedges	**7**	9
Change in accumulated other comprehensive income related to employee benefit plans	**5**	3
Comprehensive income	**986**	58
Cash dividends declared:		
Common stock (**2009 - $.02 per share** and 2008 - $.59 per share)	**(13)**	(321)
Preferred stock	**(117)**	
Issuance of common stock	**986**	
Issuance of preferred stock, Series G		1,072
Exchange of preferred stock, Series G	**(234)**	
Stock-based awards exercised, including treasury shares issued	**1**	
Stock-based compensation expense	**23**	28
Loans repaid related to the exercise of stock-based awards, net		2
Change in corporate tax benefit related to stock-based compensation	**(30)**	(15)
Shares issued in an acquisition		770
Reversal of OTTI *(a)*	**24**	
Other	**(3)**	(1)
Total Shareholders Equity, ending	$ 13,700	10,754

(a) Includes the after tax impact of the reversal of other than temporary impairment (OTTI), totaling $24 million in the second quarter of 2009; as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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Fifth Third Bancorp and Subsidiaries

Condensed Consolidated Financial Statements and Notes (continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

($ in millions)	For the six months ended June 30, 2009	2008
Operating Activities		
Net income	**$ 932**	84
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**1,814**	1,263
Depreciation, amortization and accretion	**182**	172
Stock-based compensation expense	**23**	28
Provision for deferred income taxes	**263**	167
Realized securities gains	**(11)**	(32)
Realized securities gains non-qualifying hedges on mortgage servicing rights	**(63)**	(3)
Realized securities losses	**31**	15
Realized securities losses non-qualifying hedges on mortgage servicing rights	**7**	
Provision (recovery) for mortgage servicing rights	**19**	(24)
Net losses (gains) on sales of loans	**23**	(57)
Capitalized mortgage servicing rights	**(207)**	(123)
Loss on recalculation of the timing of tax benefits on leveraged leases		130
Loans originated for sale, net of repayments	**(12,699)**	(7,651)
Proceeds from sales of loans held for sale	**10,690**	7,813
Decrease in trading securities	**5**	741
Gain on sale of processing business, net of tax	**(1,056)**	
Decrease in other assets	**1,098**	1,329
Decrease in accrued taxes, interest and expenses	**(1,074)**	(486)
Increase (decrease) in other liabilities	**650**	(4)
Net Cash Provided by Operating Activities	**627**	3,362
Investing Activities		
Proceeds from sales of available-for-sale securities	**2,606**	2,678
Proceeds from calls, paydowns and maturities of available-for-sale securities	**67,652**	32,850
Purchases of available-for-sale securities	**(73,507)**	(37,137)
Proceeds from calls, paydowns and maturities of held-to-maturity securities	**2**	2
Purchases of held-to-maturity securities		(10)
Decrease in other short-term investments	**3,066**	336
Decrease (increase) in loans and leases	**2,499**	(3,822)
Proceeds from sale of loans	**295**	3,511
Increase in operating lease equipment	**(30)**	(25)
Purchases of bank premises and equipment	**(95)**	(241)
Proceeds from disposal of bank premises and equipment	**9**	28
Proceeds from sale of processing business	**562**	
Net cash paid in acquisitions	**(16)**	(154)
Net Cash Provided by (Used In) Investing Activities	**3,043**	(1,984)

Financing Activities		
Increase (decrease) in core deposits	**2,583**	(3,327)
(Decrease) increase in certificates $100,000 and over, including other foreign office	**(671)**	1,456
Increase (decrease) in federal funds purchased	**148**	(2,192