FIFTH THIRD BANCORP
Form 10-Q
November 06, 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 September 30, 2009

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

Ohio	**31-0854434**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 795,316,187 shares of the Registrant s common stock, without par value, outstanding as of September 30, 2009.

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This report contains forward-looking statements about Fifth Third Bancorp 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, continue, remain or s expressions or future or conditional verbs such as will, would, should, could, might, can, may or similar expressions. There are a numb 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 (MD&A) 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

($ in millions, except per share data)	For the three months ended September 30, 2009	2008	% Change	For the nine months ended September 30, 2009	2008	% Change
Income Statement Data						
Net interest income *(a)*	**$ 874**	1,068	(18)	**$ 2,491**	2,638	(6)
Noninterest income	**851**	717	19	**4,130**	2,304	79
Total revenue *(a)*	**1,725**	1,785	(3)	**6,621**	4,942	34
Provision for loan and lease losses	**952**	941	1	**2,766**	2,203	26
Noninterest expense	**876**	967	(9)	**2,859**	2,543	12
Net income (loss)	**(97)**	(56)	(74)	**835**	29	NM
Net income (loss) available to common shareholders	**(159)**	(81)	(97)	**670**	3	NM
Common Share Data						
Earnings per share, basic	**$ (0.20)**	(0.14)	(43)	**$ 1.00**	0.01	NM
Earnings per share, diluted	**(0.20)**	(0.14)	(43)	**0.91**	0.01	NM
Cash dividends per common share	**0.01**	0.15	(93)	**0.03**	0.74	(96)
Market value per share	**10.13**	11.90	(15)	**10.13**	11.90	(15)
Book value per share	**12.69**	16.65	(24)	**12.69**	16.65	(24)
Financial Ratios						
Return on assets	**(0.34)%**	(0.19)	(79)	**0.96%**	0.03	NM
Return on average common equity	**(6.1)**	(3.3)	(85)	**10.1**		NM
Average equity as a percent of average assets	**12.24**	9.45	30	**11.06**	8.83	25
Tangible equity *(b)*	**10.08**	6.19	63	**10.08**	6.19	63
Tangible common equity *(c)*	**6.74**	5.23	29	**6.74**	5.23	29
Net interest margin *(a)*	**3.43**	4.24	(19)	**3.25**	3.57	(9)
Efficiency *(a)*	**50.8**	54.2	(6)	**43.2**	51.4	(16)
Credit Quality						
Net losses charged off	**$ 756**	463	63	**$ 1,872**	1,082	73
Net losses charged off as a percent of average loans and leases	**3.75%**	2.17%	73	**3.06%**	1.74	76
Allowance for loan and lease losses as a percent of loans and leases	**4.69**	2.41	95	**4.69**	2.41	95
Allowance for credit losses as a percent of loans and leases *(d)*	**5.06**	2.56	98	**5.06**	2.56	98
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned *(e)(f)*	**4.04**	2.86	42	**4.04**	2.86	42
Average Balances						
Loans and leases, including held for sale	**$ 82,888**	85,772	(3)	**$ 84,560**	85,302	(1)
Total securities and other short-term investments	**18,065**	14,515	24	**17,888**	13,494	33
Total assets	**113,453**	114,784	(1)	**115,985**	112,732	3
Transaction deposits *(g)*	**55,607**	52,399	6	**54,034**	53,204	2
Core deposits *(h)*	**69,871**	63,179	11	**68,492**	63,599	8
Wholesale funding *(i)*	**25,947**	37,036	(30)	**30,707**	35,145	(13)
Shareholders equity	**13,885**	10,843	28	**12,826**	9,953	29
Regulatory Capital Ratios						

Tier I capital	**13.23%**	8.57	54	**13.23%**	8.57	54
Total risk-based capital	**17.48**	12.30	42	**17.48**	12.30	42
Tier I leverage	**12.34**	8.77	41	**12.34**	8.77	41
Tier I common equity	**7.03**	5.18	36	**7.03**	5.18	36

(a) Amounts presented on a fully taxable equivalent basis. The taxable equivalent adjustments for the three months ended September 30, 2009 and 2008 were $5 million and for the nine months ended September 30, 2009 and 2008 were $15 million and $17 million, respectively.

(b) 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 of the MD&A.

(c) 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 of the MD&A.

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

(e) Excludes nonaccrual loans held for sale.

(f) 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.

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

(h) Includes transaction deposits plus other time deposits.

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

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 September 30, 2009, the Bancorp had $111 billion in assets, operated 16 affiliates with 1,306 full-service banking centers including 100 Bank Mart® locations open seven days a week inside select grocery stores and 2,372 Jeanie® ATMs throughout the Midwest and Southeast regions of the United States. As of September 30, 2009, the Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending 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 September 30, 2009, net interest income, on a fully taxable equivalent (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 service charges on deposits, corporate banking revenue, mortgage banking revenue, fiduciary and investment management fees, and card and processing 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.

Earnings Summary

During the third quarter of 2009, the Bancorp continued to be affected by a challenging credit environment and the continued economic slowdown. The Bancorp s net loss for the quarter was $97 million. Preferred dividends of $62 million for the quarter included $53 million related to the Series F preferred stock held by the U.S. Treasury and $9 million paid to Series G preferred stock holders. Including preferred dividends, the net loss available to common shareholders was $159 million in the third quarter of 2009 compared to a net loss of $81 million in the third quarter of 2008. Diluted net loss per share was $0.20 in the third quarter of 2009 compared to a net loss of $.14 per diluted share in the third quarter of 2008.

Net interest income (FTE) decreased 18%, from $1.1 billion in the third quarter of 2008 to $869 million in third quarter of 2009. Net interest margin was 3.43% in the third quarter of 2009, a decrease of 81 basis points (bp) from the third quarter of 2008. Third quarter 2009 and 2008 results included $27 million and $226 million, respectively, in loan and deposit discount accretion related to

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

the First Charter acquisition. Excluding this impact in both periods, net interest income increased by one percent and net interest margin remained flat.

Noninterest income increased 19%, from $717 million in the third quarter of 2008 to $851 million in the third quarter of 2009. Third quarter 2009 results included a $244 million gain from the sale of the Bancorp s Visa, Inc. Class B common shares and $38 million in revenue associated with the transition service agreement (TSA) entered into as part of the Processing Business Sale, which involved the sale of a majority interest in the Bancorp s merchant acquiring and financial institutions processing businesses. As part of the sale, the Bancorp entered into the TSA, which requires the Bancorp to provide services to the processing business to support its operations during the deconversion period. Third quarter 2008 results included a $76 million gain related to a litigation settlement stemming from a prior acquisition, a $51 million reduction due to other than temporary impairment (OTTI) charges on Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) preferred stock, and a $27 million charge to lower the cash surrender value of a Bank-Owned Life Insurance (BOLI) policy. Excluding these items, and investment securities gains/losses in both periods, noninterest income of $561 million decreased by $199 million, or 26%, from third quarter 2008. The decline was largely driven by the impact of the sale of the processing business, which included the former merchant processing and financial institutions businesses that traditionally drove the majority of card and processing revenue.

Noninterest expense decreased 9%, or $91 million, compared to the third quarter of 2008 which was driven by a reduction in core expenses due to the sale of the processing business as well as broad-based expense control, partially offset by higher provision expense for unfunded commitments. Additionally, third quarter of 2009 results included the release of $73 million in Visa litigation reserves, which included a $44 million reduction in connection with the sale of the Bancorp s Class B common shares, along with a $29 million reduction due to Visa s funding of an additional $700 million into the litigation escrow account.

The Bancorp does not originate subprime mortgage loans, hold credit default swaps or hold asset-backed securities backed by subprime mortgage loans in its securities portfolio. However, the Bancorp has exposure to disruptions in the capital markets and weakening economic conditions. The housing markets that weakened throughout 2008, remained weak into the third quarter of 2009, particularly in the upper Midwest and Florida, however, home sales have signaled a reversal of their downward trends and home prices have begun to stabilize. Additionally, economic conditions remained weak as overall unemployment rates have continued to rise, putting significant stress on the Bancorp s commercial and consumer loan portfolios. Consequently, the provision for loan and lease losses increased to $952 million for the third quarter of 2009 compared to $941 million for the third quarter of 2008. Net charge-offs as a percent of average loans and leases were 3.75% in the third quarter of 2009 compared to 2.17% in the third quarter of 2008. At September 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 4.04% from 2.86% at September 30, 2008. Including $288 million of nonaccrual loans classified as held-for-sale in the third quarter of 2009, total nonperforming assets were $3.5 billion compared with $2.5 billion in the third 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 September 30, 2009, the Tier 1 capital ratio was 13.23%, the Tier 1 leverage ratio was 12.34%, the total risk-based capital ratio was 17.48% 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 7.03%.

NON-GAAP FINANCIAL MEASURES

The Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio and tangible common equity ratio, in addition to capital ratios defined by banking regulators. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because U.S. GAAP does not include capital ratio measures, the Bancorp believes there are no comparable U.S. GAAP financial measures to these ratios.

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

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

The following table reconciles Non-GAAP financial measures to U.S. GAAP as of September 30:

TABLE 2: Non-GAAP Financial Measures

($ in millions)	**2009**	2008
Total shareholders equity	**13,688**	10,696
Less:		
Goodwill	**(2,417)**	(3,592)
Intangible assets	**(119)**	(188)
Accumulated other comprehensive income	**(285)**	60
Tangible equity (a)	**10,867**	6,976
Less: preferred stock	**(3,599)**	(1,082)
Tangible common equity (b)	**7,268**	5,894
Total assets	**110,740**	116,294
Less:		
Goodwill	**(2,417)**	(3,592)
Intangible assets	**(119)**	(188)
Accumulated other comprehensive income, before tax	**(438)**	92
Tangible assets, excluding unrealized gains / losses (c)	**107,766**	112,606
Ratios:		
Tangible equity (a) / (c)	**10.08%**	6.19%
Tangible common equity (b) / (c)	**6.74%**	5.23%

RECENT ACCOUNTING STANDARDS

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

CRITICAL ACCOUNTING POLICIES

The Bancorp s Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain accounting policies require management to exercise judgment in determining methodologies, economic assumptions and estimates that may materially affect the value of the Bancorp s assets or liabilities and results of operations and cash flows. The Bancorp s critical accounting policies include the accounting for allowance for loan and lease losses, reserve for unfunded commitments, income taxes, valuation of servicing rights, fair value measurements and goodwill. These accounting policies are discussed in detail in Management s Discussion and Analysis - Critical Accounting Policies in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2008. No material changes have been made to the valuation techniques or models during the nine months ended September 30, 2009.

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

STATEMENTS OF INCOME ANALYSIS

Net Interest Income

Net interest income is the interest earned on 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 nine months ended September 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 $874 million for the third quarter of 2009, a decrease of $194 million from the third quarter of 2008. For the nine months ended September 30, 2009, net interest income was $2.5 billion, a decrease of $147 million from the same period in 2008. Net interest income was affected by the amortization and accretion of premiums and discounts on acquired loans and deposits, primarily from the First Charter Acquisition, that increased net interest income by $29 million during the third quarter of 2009, compared to an increase of $226 million in the third quarter of 2008. For the nine months ended September 30, 2009 and 2008, net interest income increased $111 million and $273 million, respectively, from the amortization and accretion of premiums and discounts on acquired loans and deposits. Additionally, the nine month periods ended September 30, 2009 and 2008 were impacted by the recalculation of cash flows on certain leveraged leases that reduced interest income on commercial leases by approximately $6 million and $130 million, respectively. Excluding these impacts, net interest income increased $3 million in the third quarter of 2009 and decreased $107 million for the nine months ended September 30, 2009, compared to the three and nine month periods for the prior year, respectively. Net interest income was positively impacted by 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 continued to mature throughout 2009. For the three and nine months ended September 30, 2009, net interest income was also impacted by increases of $666 million and $3.7 billion, respectively, in average interest-earning assets as well as a decline of $7.2 billion and $2.2 billion, respectively, in average interest-bearing liabilities driven by growth in the Bancorp s free-funding position. The improvements to net interest income due to the benefits of the increase in the Bancorp s free-funding position were offset by declines in the net interest rate spread, which was 3.10% and 2.93% for the three and nine months ended September 30, 2009, respectively, down from 3.91% and 3.21% in the same periods last year.

Net interest margin decreased to 3.43% in the third quarter of 2009 compared to 4.24% in the third quarter of 2008. The third quarter of 2008 was impacted by the amortization and accretion of premiums and discounts on acquired loans and deposits that increased net interest margin by approximately 90 bps, while the impact in the third quarter of 2009 was an 11 bp increase. Exclusive of this adjustment, net interest margin for the third quarter of 2009 decreased 2 bps compared to the same period in 2008 and declined 9 bps for the nine months ended September 30, 2009 compared to the same period in 2008.

Total average interest-earning assets increased one percent from the third quarter of 2008 and increased four percent for the nine months ended September 30, 2009 compared to the same period in 2008. For the third quarter 2009, average total commercial loans decreased seven percent while residential mortgage and home equity loans both remained relatively flat. For the nine months ended September 30, 2009, average total commercial loans decrease two percent, while home equity loans increased four percent. Additionally, the average investment portfolio increased $3.5 billion, or 24%, in the three months ended September 30, 2009, compared to the third quarter of 2008 and increased $4.4 billion, or 33%, in the nine months ended September 30, 2009, compared to the same period in 2008. The increase in the average investment portfolio during 2009 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 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 $392 million, or 28%, compared to the third quarter of 2008. This decrease was the result of a 168 bp decrease in average rates and three percent decrease in average loan and lease balances. Exclusive of amortization and accretion of premiums and discounts on loans and leveraged lease charges discussed above, interest income (FTE) from loans and leases decreased $215 million compared to the prior year quarter. For the nine months ended September 30, 2009, interest income (FTE) from loans and leases decreased $740 million, or 20%, compared to the same period in 2008, due to a 112 bps decrease in average rates and one percent decrease in average loan and lease balances. Exclusive of amortization and accretion of premiums and discounts on loans and leveraged lease charges discussed above, interest income (FTE) from loans and leases decreased $720 million in the nine months ended September 30, 2009 compared to the same period in the prior year.

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

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

For the three months ended	**September 30, 2009**			September 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	**$ 27,416**	**$ 302**	**4.36%**	$ 28,284	$ 389	5.46%	$ (12)	$ (75)	$ (87)
Commercial mortgage	**12,449**	**132**	**4.22**	13,257	290	8.71	(17)	(141)	(158)
Commercial construction	**4,475**	**31**	**2.74**	6,110	107	6.97	(24)	(52)	(76)
Commercial leases	**3,522**	**41**	**4.59**	3,642	35	3.85	(1)	7	6
Subtotal commercial	**47,862**	**506**	**4.19**	51,293	821	6.37	(54)	(261)	(315)
Residential mortgage loans	**10,820**	**143**	**5.23**	10,711	190	7.05	2	(49)	(47)
Home equity	**12,452**	**129**	**4.10**	12,534	181	5.76	(1)	(51)	(52)
Automobile loans	**8,871**	**141**	**6.32**	8,303	132	6.32	9		9
Credit card	**1,955**	**49**	**9.87**	1,720	43	9.93	6		6
Other consumer loans/leases	**928**	**22**	**9.59**	1,211	15	4.93	(5)	12	7
Subtotal consumer	**35,026**	**484**	**5.48**	34,479	561	6.47	11	(88)	(77)
Total loans and leases	**82,888**	**990**	**4.73**	85,772	1,382	6.41	(43)	(349)	(392)
Securities:									
Taxable	**16,850**	**180**	**4.24**	13,310	161	4.81	40	(21)	19
Exempt from income taxes *(b)*	**246**	**4**	**7.05**	315	5	7.38	(1)		(1)
Other short-term investments	**969**		**0.10**	890	5	2.21		(5)	(5)
Total interest-earning assets	**100,953**	**1,174**	**4.61**	100,287	1,553	6.16	(4)	(375)	(379)
Cash and due from banks	**2,257**			2,468					
Other assets	**13,724**			13,683					
Allowance for loan and lease losses	**(3,481)**			(1,654)					
Total assets	**$ 113,453**			$ 114,784					
Liabilities									
Interest-bearing liabilities:									
Interest checking	**$ 14,869**	**$ 9**	**0.24%**	$ 13,843	$ 27	0.78%	$ 1	$ (19)	$ (18)
Savings	**16,967**	**29**	**0.67**	16,154	53	1.29	2	(26)	(24)
Money market	**4,280**	**6**	**0.55**	6,051	25	1.67	(6)	(13)	(19)
Foreign office deposits	**2,432**	**3**	**0.43**	2,126	7	1.37	1	(5)	(4)
Other time deposits	**14,264**	**116**	**3.24**	10,780	90	3.31	29	(3)	26
Certificates - $100,000 and over	**10,055**	**65**	**2.56**	11,623	87	2.97	(11)	(11)	(22)
Other foreign office deposits	**95**		**0.19**	395	2	1.83	(1)	(1)	(2)
Federal funds purchased	**404**		**0.15**	1,013	5	1.78	(1)	(4)	(5)
Other short-term borrowings	**5,285**	**4**	**0.32**	9,613	59	2.46	(19)	(36)	(55)
Long-term debt	**10,108**	**68**	**2.67**	14,392	130	3.63	(33)	(29)	(62)
Total interest-bearing liabilities	**78,759**	**300**	**1.51**	85,990	485	2.25	(38)	(147)	(185)
Demand deposits	**17,059**			14,225					
Other liabilities	**3,750**			3,721					

Total liabilities	**99,568**			103,936					
Shareholders equity	**13,885**			10,848					
Total liabilities and shareholders equity	**$ 113,453**			$ 114,784					
Net interest income		**$ 874**			$ 1,068		$ 34	$ (228)	$ (194)
Net interest margin			**3.43%**			4.24%			
Net interest rate spread			**3.10**			3.91			
Interest-bearing liabilities to interest-earning assets			**78.02**			85.74			

(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 for the three months ended September 30, 2009 and 2008.

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

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

For the nine months ended	**September 30, 2009**			September 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	**$ 28,135**	**$ 870**	**4.14%**	$ 27,821	$ 1,143	5.49%	$ 13	$ (286)	$ (273)
Commercial mortgage	**12,641**	**417**	**4.41**	12,635	664	7.02		(247)	(247)
Commercial construction	**4,808**	**107**	**2.97**	5,797	262	6.04	(39)	(116)	(155)
Commercial leases	**3,532**	**109**	**4.13**	3,704	(16)	(.57)	1	124	125
Subtotal commercial	**49,116**	**1,503**	**4.09**	49,957	2,053	5.49	(25)	(525)	(550)
Residential mortgage loans	**11,137**	**470**	**5.64**	11,216	539	6.42	(4)	(65)	(69)
Home equity	**12,616**	**394**	**4.17**	12,132	539	5.94	21	(166)	(145)
Automobile loans	**8,751**	**416**	**6.36**	9,092	431	6.33	(17)	2	(15)
Credit card	**1,882**	**144**	**10.26**	1,694	120	9.46	14	10	24
Other consumer loans/leases	**1,058**	**61**	**7.64**	1,211	46	5.14	(5)	20	15
Subtotal consumer	**35,444**	**1,485**	**5.60**	35,345	1,675	6.33	9	(199)	(190)
Total loans and leases	**84,560**	**2,988**	**4.72**	85,302	3,728	5.84	(16)	(724)	(740)
Securities:									
Taxable	**16,639**	**537**	**4.32**	12,477	459	4.92	139	(61)	78
Exempt from income taxes *(b)*	**250**	**14**	**7.51**	360	20	7.34	(6)		(6)
Other short-term investments	**999**	**1**	**0.15**	657	12	2.47	4	(15)	(11)
Total interest-earning assets	**102,448**	**3,540**	**4.62**	98,796	4,219	5.70	121	(800)	(679)
Cash and due from banks	**2,347**			2,354					
Other assets	**14,327**			12,847					
Allowance for loan and lease losses	**(3,137)**			(1,265)					
Total assets	**$ 115,985**			$ 112,732					
Liabilities									
Interest-bearing liabilities:									
Interest checking	**$ 14,647**	**$ 29**	**0.26%**	$ 14,357	$ 108	1.00%	$ 2	$ (81)	$ (79)
Savings	**16,651**	**96**	**0.77**	16,270	173	1.42	4	(81)	(77)
Money market	**4,334**	**21**	**0.63**	6,511	101	2.08	(26)	(54)	(80)
Foreign office deposits	**1,970**	**7**	**0.49**	2,246	30	1.79	(3)	(20)	(23)
Other time deposits	**14,458**	**373**	**3.45**	10,395	289				