FIFTH THIRD BANCORP
Form 10-Q
May 11, 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 March 31, 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 ¨ 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 576,935,997 shares of the Registrant s common stock, without par value, outstanding as of March 31, 2009.

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This report may contain 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, similar expressions or future or conditional verbs such as will, would, should, could, might, can, may or similar expressions. There are 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 national or in the states in which Fifth Third does 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 or the businesses in which it is 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) difficulties in combining the operations of acquired entities; (21) lower than expected gains related to any potential sale of businesses; (22) failure to consummate the sale of a majority interest in Fifth Third s merchant acquiring and financial institutions processing businesses (the Processing Business) or difficulties in separating the Processing Business from Fifth Third; (23) loss of income from any potential sale of businesses that could have an adverse effect on Fifth Third s earnings and future growth; (24) ability to secure confidential information through the use of computer systems and telecommunications networks; and (25) 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 March 31 ($ in millions, except per share data)	2009	2008	Percent Change
Income Statement Data			
Net interest income *(a)*	$ **781**	826	(5)%
Noninterest income	**697**	864	(19)
Total revenue *(a)*	**1,478**	1,690	(13)
Provision for loan and lease losses	**773**	544	42
Noninterest expense	**962**	715	35
Net income	**50**	286	(83)
Net income (loss) available to common shareholders	**(26)**	286	NM*(k)*
Common Share Data			
Earnings per share, basic	**($.04)**	.54	NM
Earnings per share, diluted	**(.04)**	.54	NM
Cash dividends per common share	**.01**	.44	(98)%
Book value per share	**13.61**	17.56	(22)
Financial Ratios			
Return on assets	**.17%**	1.03	(83)%
Return on average common equity	**(1.4)**	12.3	NM
Average equity as a percent of average assets	**10.18**	8.43	21
Tangible equity *(h)(j)*	**7.89**	6.19	27
Tangible common equity *(i)(j)*	**4.23**	6.19	(32)
Net interest margin *(a)*	**3.06**	3.41	(10)
Efficiency *(a)*	**65.1**	42.3	54
Credit Quality			
Net losses charged off	$ **490**	276	78%
Net losses charged off as a percent of average loans and leases	**2.37%**	1.37	73
Allowance for loan and lease losses as a percent of loans and leases	**3.71**	1.49	149
Allowance for credit losses as a percent of loans and leases *(b)*	**3.99**	1.62	146
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned *(c)(d)*	**3.19**	1.81	76
Average Balances			
Loans and leases, including held for sale	$ **85,829**	84,912	1%
Total securities and other short-term investments	**17,835**	12,597	42
Total assets	**118,681**	111,291	7
Transaction deposits *(e)*	**52,347**	53,458	(2)
Core deposits *(f)*	**66,848**	64,342	4
Wholesale funding *(g)*	**34,902**	33,219	5
Shareholders equity	**12,084**	9,379	29
Regulatory Capital Ratios			
Tier I capital	**10.93%**	7.72	42%
Total risk-based capital	**15.13**	11.34	33

Tier I leverage	**10.29**	8.28	24

(a) *Amounts presented on a fully taxable equivalent basis. The taxable equivalent adjustments for the three months ended March 31, 2009 and 2008 were $5 million and $6 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 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.)*

(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.)*

(j) *The tangible equity and tangible common equity ratios, while not required by GAAP, are considered to be critical metrics with which to analyze banks. The ratios have been included herein to facilitate a greater understanding of the Bancorp s capital structure and financial condition.*

(k) *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 March 31, 2009, the Bancorp had $119.3 billion in assets, operated 16 affiliates with 1,311 full-service banking centers including 95 Bank Mart® locations open seven days a week inside select grocery stores and 2,354 Jeanie® ATMs in the Midwestern and Southeastern regions of the United States. 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 March 31, 2009, net interest income, on a fully taxable equivalent (FTE) basis, and noninterest income provided 53% and 47% 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 March 30, 2009, the Bancorp and Advent International (Advent) announced an agreement under which Advent will acquire a 51% interest in the Bancorp s processing business through the formation of a joint venture that values the new company at approximately $2.35 billion before valuation adjustments by either party. Pursuant to the agreement, Fifth Third Bank (Ohio), an indirect wholly owned subsidiary of the Bancorp, will contribute the assets and operations of the Bancorp s merchant acquiring and financial institutions processing business to a new limited liability company (LLC). The LLC s capitalization prior to the purchase of this interest will include senior secured notes payable to subsidiaries of the Bancorp in the amount of $1.25 billion. Advent will pay the Bancorp $561 million in cash for the 51% ownership interest in the equity of the LLC and for certain put rights. Additionally, the Bancorp will receive warrants in the new company exercisable in certain circumstances. The Bancorp estimates the valuation adjustments related to these warrants, the put, and minority interest discounts may reduce its implied valuation of the business by approximately $50 million. The agreement is subject to certain potential purchase price adjustments. The transaction is expected to contribute significantly to the Bancorp s retained earnings, capital levels and capital ratios, and net income, generating estimated pre-tax book gain of $1.7 billion, increasing the Bancorp s tangible common equity and Tier 1 capital by an estimated $1.2 billion, and

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

increasing net income by an estimated $1.0 billion. The transaction, on a pro forma basis, would have increased the Bancorp s capital ratios at March 31, 2009 by approximately 90 basis points (bp).

On February 25, 2009, the U.S. Department of the Treasury (the Treasury) announced the implementation of the Capital Assistance Program (the CAP), under which U.S. bank holding companies with more than $100 billion of assets at December 31, 2008, were required to undergo a forward-looking stress test called the Supervisory Capital Assessment Program (the SCAP). Results of the examinations associated with the SCAP were announced by U.S. financial and regulatory authorities on May 7, 2009. The Bancorp publicly announced specific information related to its SCAP results on May 7, 2009. Refer to Part II, Other Information (Item 5) and Part II, Risk Factors (Item 1A) for additional information related to the SCAP and the Bancorp s results.

Earnings Summary

During the first quarter of 2009, the Bancorp continued to be affected by the economic slowdown and market disruptions. The Bancorp s net income was $50 million in the first quarter of 2009. Preferred dividends of $76 million in the first quarter of 2009 resulted from preferred stock issued during 2008, including the issuance of $3.4 billion in preferred stock to the U.S. Treasury on December 31, 2008. Including preferred dividends, the net loss available to common shareholders was $26 million, or $0.04 per diluted share, compared with net income of $286 million, or $0.54 per diluted share, in the first quarter of 2008. Results for both periods reflect a number of significant items.

Items affecting the first quarter of 2009 include:

- $106 million income tax benefit due to the impact of the decision to surrender one of the Bancorp s bank owned life insurance (BOLI) policies and the determination that losses on the policy recorded in prior periods are now expected to be tax deductible. In addition, a $54 million pre-tax charge to other noninterest income was recognized reflecting reserves recorded in connection with the intent to surrender the policy as well as losses related to market value declines; and

- $55 million income tax benefit resulting from an agreement with the Internal Revenue Service (IRS) to settle all of the Bancorp s disputed leverage leases for all open years. The reduction in income tax expense is related to the reduction in tax reserves for these exposures. This settlement also resulted in a reduction of net interest income of $6 million due to a change in the timing of tax benefits.

For comparison purposes, items affecting the first quarter of 2008 include:

- $273 million of other noninterest income related to the redemption of a portion of Fifth Third s ownership interests in Visa, Inc. (Visa), as well as a $152 million reduction to noninterest expense related to the reversal of a portion of previously recorded litigation reserves, both related to Visa s initial public offering (IPO); and

- $152 million reduction to other noninterest income to further reduce the current cash surrender value of one of the Bancorp s BOLI policies.

Net interest income (FTE) decreased five percent, from $826 million to $781 million, compared to the same period last year reflecting the decline of market rates during the first quarter of 2009, particularly London Interbank Offered Rate (LIBOR) rates, as assets have repriced faster than liabilities. Net interest margin was 3.06% in the first quarter of 2009, a decrease of 35 bp from the first quarter of 2008. The primary driver of this decline was the differential impact of lower market rates of assets and liabilities and the full-quarter effect of higher-priced term deposits issued in the latter part of 2008.

Noninterest income decreased 19%, from $864 million to $697 million, over the same period last year. Excluding significant items mentioned previously, noninterest income decreased six percent from a year ago due to lower investment advisory revenue and increased securities losses in the first quarter of 2009, offset by growth in payments processing revenue, mortgage banking revenue and corporate banking revenue.

Noninterest expense increased 35%, or $247 million, compared to the first quarter of 2008. Excluding the first quarter of 2008 reversal of $152 million in Visa litigation expense previously discussed, expenses increased by $95 million, or 11% from the same quarter the previous year driven by higher credit-related costs, particularly loan and lease collection costs and provision for unfunded commitments, as well as the effect of higher deposit insurance assessments.

The Bancorp did not originate subprime mortgage loans, did not hold credit default swaps and did not 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 first quarter of 2009, particularly in the upper Midwest and Florida. Additionally, economic conditions continued to deteriorate throughout 2008 and

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

during the first 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 $773 million for March 31, 2009 compared to $544 million for March 31, 2008. Net charge-offs as a percent of average loans and leases were 2.37% in the first quarter of 2009 compared to 1.37% in the first quarter of 2008. At March 31, 2009, nonperforming assets as a percent of loans, leases and other assets, including other real estate owned (OREO) (excluding nonaccrual loans held for sale) increased to 3.19% from 1.81% at March 31, 2008. Including $403 million of nonaccrual loans classified as held-for-sale in the first quarter of 2009, total nonperforming assets were $3.1 billion compared with $1.5 billion in the first quarter of 2008. During the first quarter of 2009, the Bancorp reclassified certain TDRs from nonaccrual to accrual status that were less than 90 days past due as measured by their modified terms as they were performing in accordance with their restructured terms. For comparability purposes, prior periods were adjusted to reflect this reclassification. The income statement impact of this reclassification was immaterial to the Bancorp s Condensed Consolidated Financial Statements.

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 March 31, 2009, the Tier 1 capital ratio was 10.93%, the Tier 1 leverage ratio was 10.29% and the total risk-based capital ratio was 15.13%.

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 March 31, 2009 to the valuation techniques or models described below.

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 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

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

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 that the deferred tax asset will be realized.

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 11 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.

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

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 6 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 accounting principles generally accepted in the United States of America. 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.

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.

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

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 15 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. The Bancorp s stock price, consistent with stock prices in the broader financial services sector, declined significantly during the first quarter of 2009. As a result, the sum of the fair values of the reporting units significantly exceeds the overall market capitalization of the Company as of March 31, 2009. Although the Bancorp believes it is reasonable to conclude that market capitalization could be an indicator of fair value over time, the Bancorp is of the view that short-term fluctuations in market capitalization do not reflect the long-term fair value of its reporting units. 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. The Bancorp believes that this discounted cash flow (DCF) method, using management projections for the respective reporting units and an appropriate risk adjusted discount rate, is most reflective of a market participant s view of fair values given current market conditions.

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.

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 3 of the Notes to Condensed Consolidated Financial Statements for further information regarding the Bancorp s goodwill.

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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.

Table 2 presents the components of net interest income, net interest margin and net interest spread for the three months ended March 31, 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 $781 million for the first quarter of 2009, a decrease of $45 million from the first quarter of 2008 and $116 million from the fourth quarter of 2008. Net interest income was affected by the amortization and accretion of premiums and discounts on acquired loans and deposits that increased net interest income by $44 million during the first quarter of 2009, compared to an increase of $8 million for the first quarter of 2008 and an increase of $85 million during the fourth quarter of 2008. Additionally, there was a $6 million charge to net interest income related to the change in timing of expected cash flows on certain leveraged leases related to the IRS settlement in the first quarter of 2009. Exclusive of the impact of these items, net interest income decreased $75 million compared to the first quarter of 2008 and $70 million compared to the fourth quarter of 2008. The sequential and year-over-year decline is primarily a result of the decline in market interest rates as the Bancorp s assets have repriced faster than its liabilities and due to the full quarter impact of higher priced certificates of deposit issued during the fourth quarter of 2008. The average federal funds rate decreased approximately 294 bp from the first quarter of 2008 and 83 bp from the fourth quarter of 2008. In addition, the increase in the Bancorp s nonperforming loans contributed to the decrease in net interest income compared to the prior year quarter. During the first quarter of 2009, $57 million in additional interest income would have been recorded if nonaccrual loans had been current. The Bancorp s net interest spread for the first quarter of 2009 was 2.74%, a decline of 26 bp from the first quarter of 2008 and a 42 bp decline from the fourth quarter of 2008.

Net interest margin decreased to 3.06% in the first quarter of 2009 compared to 3.41% in the first quarter of 2008 and 3.46% in the fourth quarter of 2008. Net interest margin was affected by the amortization and accretion of premiums and discounts on acquired loans and deposits that increased net interest margin approximately 17 bp in the first quarter of 2009 compared to 3 bp in the first quarter of 2008 and 33 bp in the fourth quarter of 2008. Exclusive of the adjustments above, net interest margin decreased 49 bp on a year-over-year basis and declined 24 bp sequentially driven by the previously mentioned decline in market rates and the full quarter impact of higher priced certificates of deposit issued during the fourth quarter of 2008.

Total average interest-earning assets increased six percent from the first quarter of 2008 and one percent on a sequential basis. On a year-over-year basis, average total commercial loans increased five percent while consumer loans decreased four percent. Additionally, the investment portfolio increased $5.2 billion, or 42%, compared to the first quarter of 2008. Average total commercial loans decreased five percent from the fourth quarter of 2008 while consumer loans increased three percent and the investment portfolio increased $2.2 billion, or 14%. 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 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 $293 million, or 23%, compared to the first quarter of 2008 and decreased $220 million, or 18%, compared to the fourth quarter of 2008. Exclusive of the amortization and accretion of premiums and discounts on acquired loans and the leveraged lease charge during the first quarter of 2009, interest income (FTE) from loans and leases decreased $325 million, or 25%, compared to the prior year quarter and $175 million, or 15%, compared to the sequential quarter. The decrease from the first quarter of 2008 was the result of a 140 bp decrease in average rates partially offset by a one percent increase in average loan and lease balances. The decrease from the fourth quarter of 2008 was due to an 82 bp decrease in average rates combined with a two percent decrease in average loan and lease balances.

Interest income (FTE) from investment securities and short-term investments increased 14% compared to the first quarter of 2008 and decreased four percent compared to the fourth quarter of 2008. The increase from the first quarter of 2008 was a result of the 42% increase in the average investment portfolio partially offset by a 96 bp decrease in the weighted-average yield. The decrease from the fourth quarter of 2008 was a result of the 69 bp decrease in the weighted-average yield partially offset by a 14% increase in the average investment portfolio.

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

TABLE 2: Consolidated Average Balance Sheets and Analysis of Net Interest Income (FTE)

For the three months ended	March 31, 2009			March 31, 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	**$ 28,968**	**$ 286**	**4.00%**	$ 26,617	$ 397	5.99%	$ 32	$ (143)	$ (111)
Commercial mortgage	**12,809**	**144**	**4.56**	12,052	188	6.28	11	(55)	(44)
Commercial construction	**5,115**	**42**	**3.35**	5,577	78	5.64	(6)	(30)	(36)
Commercial leases	**3,564**	**28**	**3.12**	3,723	40	4.30	(1)	(11)	(12)
Subtotal commercial	**50,456**	**500**	**4.02**	47,969	703	5.89	36	(239)	(203)
Residential mortgage loans	**10,921**	**162**	**6.04**	11,699	179	6.14	(12)	(5)	(17)
Home equity	**12,763**	**135**	**4.28**	11,846	190	6.46	14	(69)	(55)
Automobile loans	**8,687**	**137**	**6.40**	10,542	168	6.41	(29)	(2)	(31)
Credit card	**1,825**	**49**	**10.89**	1,660	38	9.15	4	7	11
Other consumer loans/leases	**1,177**	**18**	**6.18**	1,196	16	5.52		2	2
Subtotal consumer	**35,373**	**501**	**5.75**	36,943	591	6.43	(23)	(67)	(90)
Total loans and leases	**85,829**	**1,001**	**4.73**	84,912	1,294	6.13	13	(306)	(293)
Securities:									
Taxable	**16,283**	**176**	**4.39**	11,560	147	5.13	54	(25)	29
Exempt from income taxes *(b)*	**262**	**5**	**7.44**	403	7	7.31	(2)		(2)
Other short-term investments	**1,290**	**1**	**0.19**	634	5	3.08	3	(7)	(4)
Total interest-earning assets	**103,664**	**1,183**	**4.63**	97,509	1,453	5.99	68	(338)	(270)
Cash and due from banks	**2,438**			2,236					
Other assets	**15,363**			12,477					
Allowance for loan and lease losses	**(2,784)**			(931)					
Total assets	**$ 118,681**			$ 111,291					
Liabilities and Shareholders Equity									
Interest-bearing liabilities:									
Interest checking	**$ 14,229**	**$ 10**	**0.27%**	$ 14,836	$ 53	1.44%	$ (2)	$ (41)	$ (43)
Savings	**16,272**	**36**	**0.89**	16,075	73	1.81	1	(38)	(37)
Money market	**4,559**	**8**	**0.72**	6,896	47	2.74	(12)	(27)	(39)
Foreign office deposits	**1,755**	**2**	**0.54**	2,443	15	2.48	(3)	(10)	(13)
Other time deposits	**14,501**	**130**	**3.62**	10,884	116	4.30	35	(21)	14
Certificates - $100,000 and over	**11,802**	**88**	**3.04**	5,835	64	4.44	50	(26)	24
Other deposits	**247**		**0.23**	3,861	31	3.22	(16)	(15)	(31)
Federal funds purchased	**701**	**1**	**0.30**	5,258	43	3.26	(21)	(21)	(42)
Other short-term borrowings	**9,621**	**23**	**1.00**	4,937	37	3.02	21	(35)	(14)
Long-term debt	**12,531**	**104**	**3.36**	13,328	148	4.48	(8)	(36)	(44)

Total interest-bearing liabilities	**86,218**	**402**	**1.89**	84,353	627	2.99	45	(270)	(225)
Demand deposits	**15,532**			13,208					
Other liabilities	**4,847**			4,351					
Total liabilities	**106,597**			101,912					
Shareholders equity	**12,084**			9,379					
Total liabilities and shareholders equity	**$ 118,681**			$ 111,291					
Net interest income		**$ 781**			$ 826		$ 23	$ (68)	$ (45)
Net interest margin			**3.06%**			3.41%			
Net interest rate spread			**2.74**			3.00			
Interest-bearing liabilities to interest-earning assets			**83.17**			86.51			

(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 March 31, 2009 and 2008, respectively.*

Average core deposits increased $2.5 billion, or four percent, compared to the first quarter of last year and increased $2.4 billion, or four percent, compared to the sequential quarter primarily due to increased demand deposits and consumer certificates of deposit from the acquisition of First Charter Corporation (First Charter) in the second quarter of 2008. The cost of interest-bearing core deposits was 1.46% in the first quarter of 2009, which was a 93 bp decrease from 2.39% in the first quarter of 2008 and a 25 bp decrease from the 1.71% paid in the fourth quarter of 2008. The year-over-year and sequential declines are a result of the decrease in short-term market interest rates.

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Interest expense on wholesale funding decreased 33% compared to the prior year quarter as declining interest rates more than offset a five percent increase in average balances. Interest expense on wholesale funding decreased 28% since the fourth quarter of 2008 due to a 12% decrease in average balances. During the first quarter of 2009, wholesale funding represented 40% of interest-bearing liabilities compared to 39% in the first quarter of 2008 and 44% in the fourth quarter of 2008. The sequential decline in wholesale funding balances is a result of bank note maturities partially offset by jumbo certificates of deposit growth. Additionally, the Bancorp s equity position increased compared to the prior year quarter and sequential quarter primarily due to 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 $773 million in the first quarter of 2009 compared to $544 million in the same period last year. The primary factors in the increase were the growth in nonperforming assets, the overall increase in 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 March 31, 2009, the allowance for loan and lease losses as a percent of loans and leases increased to 3.71% from 1.49% at March 31, 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 March 31, 2009, noninterest income decreased by $167 million, or 19%, on a year-over-year basis. The components of noninterest income for these periods are as follows:

TABLE 3: Noninterest Income

For the three months ended March 31 ($ in millions)	2009	2008	Percent Change
Electronic payment processing revenue	**$ 223**	$ 213	5
Service charges on deposits	**146**	147	(1)
Mortgage banking net revenue	**134**	97	38
Corporate banking revenue	**116**	107	8
Investment advisory revenue	**76**	93	(18)
Other noninterest income	**10**	177	(94)
Securities (losses) gains, net	**(24)**	27	NM
Securities gains, net non-qualifying hedges on mortgage servicing rights	**16**	3	534
Total noninterest income	**$ 697**	$ 864	(19)

NM: Not meaningful

Electronic payment processing revenue increased $10 million, or five percent, in the first quarter of 2009 compared to the same period last year as FTPS realized growth in each of its three product lines. Merchant processing revenue increased five percent, to $81 million, compared to the same period in 2008 due to growth in debit processing revenue. Debit card transactions grew 15% in the first quarter of 2009 compared to the same period last year. Financial institutions revenue increased to $82 million, up $3 million or four percent, compared to the first quarter of 2008 as a result of higher transaction volumes as debit card use continues to replace cash and checks at the point of sale. The Bancorp handled processing for approximately 3,000 financial institutions compared to approximately 2,700 in the same quarter last year. Card issuer interchange revenue increased five percent, to $60 million, compared to the same period in 2008 due to continued growth related to credit card usage. The Bancorp processes over 28.4 billion transactions annually and handles electronic processing for over 169,000 merchant locations worldwide.

Service charges on deposits were flat in the first quarter of 2009 compared to the same period last year. Commercial deposits revenue increased $3 million, or five percent, compared to the prior year. This increase was driven by a positive impact of $4 million to revenue due to a decrease in earnings credits on compensating balances resulting from changes in short-term 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.

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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 decreased six percent in the first quarter of 2009 compared to the same period last year. The decrease in retail service charges was attributable to lower customer activity and a decrease in the number of accounts.

Mortgage banking net revenue increased to $134 million in the first quarter of 2009 from $97 million in the same period last year. The components of mortgage banking net revenue for the three months ended March 31, 2009 and 2008 are shown in Table 4.

TABLE 4: Components of Mortgage Banking Net Revenue

For the three months ended March 31 ($ in millions)	**2009**	**2008**
Origination fees and gains on loan sales	**$ 131**	$ 93
Servicing revenue:		
Servicing fees	**45**	40
Servicing rights amortization	**(43)**	(33)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**1**	(3)
Net servicing revenue	**3**	4
Mortgage banking net revenue	**$ 134**	$ 97

Mortgage banking revenue increased significantly compared to the prior year quarter due to strong growth in originations and higher sales margins. Mortgage originations increased 25% to $5.1 billion in comparison to the same quarter last year due to the decrease in interest rates during late 2008 and into the current quarter. Higher sales margins and the increase in loan sales contributed approximately $32 million and $15 million, respectively, to the increase in mortgage banking revenue, offset by a decline in gains on portfolio loan sales of $9 million.

Mortgage net servicing revenue decreased $1 million compared to the same period last year as higher servicing fee revenue was more than offset by higher amortization of servicing rights. Net servicing revenue is comprised of gross servicing fees and related amortization as well as valuation adjustments on mortgage servicing rights and mark-to-market adjustments on both settled and outstanding free-standing derivative financial instruments. The Bancorp s total residential mortgage loans serviced at March 31, 2009 and 2008 was $52.5 billion and $47.5 billion, respectively, with $41.5 billion and $36.5 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 6 of the Notes to the 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 gain from derivatives economically hedging MSRs of $70 million, offset by a temporary impairment of $69 million, resulting in a net gain of $1 million for the three months ended March 31, 2009. For the three months ended March 31, 2008, the Bancorp recognized a gain from derivatives economically hedging MSRs of $53 million, offset by a temporary impairment of $56 million, resulting in a net loss of $3 million. See Note 8 of the Notes to the 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 net gains of $16 million and $3 million, respectively, on the sale of securities related to mortgage servicing rights during the first quarter of 2009 and 2008.

Corporate banking revenue increased $9 million to $116 million in the first quarter of 2009, up eight percent over the comparable period in 2008. The growth in corporate banking revenue was largely attributable to growth of $8 million and $5 million in lease remarketing fees and business lending fees, respectively, offset by lower derivative fee income compared to the first quarter of 2008. 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 $17 million, or 18%, from the first 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 21%, or $5 million, to $21 million in the first quarter of 2009 as investors migrated balances from stock and bond funds to money markets funds, which reduced commission-based transactions. Mutual fund revenue, decreased 30%, or $4 million, to $10 million in the first quarter of 2009 reflecting lower asset valuations on assets under management and a shift to money market funds and other lower fee products. As of March 31, 2009, the Bancorp had approximately $166 billion in assets under care and managed $23 billion in assets for individuals, corporations and not-for-profit organizations.

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

The major components of other noninterest income are as follows:

TABLE 5: Components of Other Noninterest Income

For the three months ended March 31 ($ in millions)	2009	2008
Operating lease income	$ 14	$ 10
Cardholder fees	13	15
Gain (loss) on loan sales	13	(11)
Consumer loan and lease fees	12	12
Insurance income	12	11
Banking center income	6	10
Loss on sale of other real estate owned	(14)	(6)
Bank owned life insurance loss	(43)	(135)
Gain on redemption of Visa, Inc. ownership interests		273
Other	(3)	(2)
Total other noninterest income	$ 10	$ 177

Other noninterest income decreased $167 million in the first quarter of 2009 compared to the same period last year primarily due 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. For 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 first 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 increased compared to the first quarter of 2008 due to higher property value declines and an increase in the volume of properties sold during the first quarter of 2009.

Net securities losses totaled $24 million in the first quarter of 2009 compared to $27 million of net securities gains during the first quarter of 2008. The net securities losses in 2009 included $18 million in losses attributed to the reclassification of securities related to deferred compensation plans from available-for-sale to trading during the first quarter of 2009.

Noninterest Expense

Total noninterest expense increased $247 million, or 35%, in the first quarter of 2009 compared to the same period last year. The first quarter of 2008 results include the reversal of $152 million in Visa litigation reserves originally recorded in 2007. Excluding this item, noninterest expense increased 11% due to higher net occupancy expense, loan processing expense, Federal Deposit Insurance Corporation (FDIC) insurance costs and an increase in the provision for unfunded commitments and letters of credit.

The major components of noninterest expense are as follows:

TABLE 6: Noninterest Expense

For the three months ended March 31 ($ in millions)	2009	2008	Percent Change
Salaries, wages and incentives	$ 327	$ 347	(6)
Employee benefits	83	85	(1)
Net occupancy expense	79	72	9
Payment processing expense	67	66	1

Technology and communications	**45**	47	(5)
Equipment expense	**31**	31	3
Other noninterest expense	**330**	67	393
Total noninterest expense	**$ 962**	$ 715	35

Total personnel costs (salaries, wages and incentives plus employee benefits) decreased five percent, which was driven by a decrease in the number of employees since the first quarter of 2008. Full time equivalent employees totaled 20,618 as of March 31, 2009 compared to 21,726 as of March 31, 2008.

Net occupancy expenses increased nine percent in the first quarter of 2009 over the same period last year due to the addition of 79 new banking centers since March 31, 2008. Growth in the number of banking centers was primarily driven by acquisitions. Payment processing expense includes third-party processing expenses, card management fees and other bankcard processing expenses. Payment processing expense was flat compared to the same period last year as higher network charges from increased debit card transaction volume was offset by lower expense related to card management.

The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 65.1% and 42.3% for the three months ended March 31, 2009 and 2008, respectively. Excluding the reversal of $152 million in Visa litigation reserves, the efficiency ratio for the three months ended March 31, 2008 was 51.3% (comparison being provided to supplement an

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

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 7: Components of Other Noninterest Expense

For the three months ended March 31 ($ in millions)	2009	2008
Loan processing and collections	**$ 55**	$ 37
FDIC insurance and other taxes	**44**	12
Provision for unfunded commitments and letters of credit	**36**	8
Affordable housing investments	**19**	15
Professional services fees	**18**	12
Intangible asset amortization	**16**	11
Marketing	**16**	20
Postal and courier	**15**	13
Operating lease	**10**	7
Travel	**9**	12
Recruitment and education	**8**	9
Supplies	**7**	8
Visa litigation accrual		(152)
Other	**77**	55
Total other noninterest expense	**$ 330**	$ 67

Total other noninterest expense increased by $263 million from the first quarter of 2008. The first quarter of 2008 results include the reversal of Visa litigation reserves of $152 million. Excluding the reversal of the litigation reserve, other noninterest expense increased $111 million primarily due to higher loan processing expense from higher collection and repossession costs, increased FDIC insurance costs from higher assessment rates during the first quarter of 2009 and increased provision for unfunded commitments and letters of credit due to higher estimates of inherent losses resulting from deterioration in the credit quality of the underlying borrowers and significant changes in loss factors.

Assessment rates increased during the first quarter of 2009 due to an interim rule approved by the FDIC in December 2008, which raised assessment rates uniformly by 7 bp (annually) for the first quarter of 2009 only. Additionally, assessments rates have increased due to the establishment of the Temporary Liquidity Guarantee Program (TLGP), which temporarily guarantees qualifying senior debt issued by participating FDIC-insured institutions and certain holding companies, as well as qualifying transaction account deposits.

Applicable Income Taxes

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

TABLE 8: Applicable Income Taxes

For the three months ended March 31($ in millions)	2009	2008
Income (loss) before income taxes	**($262)**	$ 425
Applicable income tax expense (benefit)	**(312)**	139
Effective tax rate	**(119.0%)**	32.6%

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 March 31, 2009 was primarily impacted by the pre-tax loss in the first quarter, a $106 million tax benefit due to the impact of the decision to surrender one of the Bancorp s BOLI policies and the determination that losses on the policy recorded in prior periods are now expected to be tax deductible, in addition to a $55 million tax benefit resulting from an agreement with the IRS to settle all of the Bancorp s disputed leverage leases for all open years. The reduction in income tax expense is related to the reduction in tax reserves for these exposures.

See Note 11 of the Notes to Condensed Consolidated Financial Statements for further information.

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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 16 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 by business segment is summarized as follows:

TABLE 9: Business Segment Results

For the three months ended March 31 ($ in millions)	2009	2008
Commercial Banking	**$ 67**	$ 129
Branch Banking	**70**	154
Consumer Lending	**29**	38
Processing Solutions	**46**	40
Investment Advisors	**18**	32
General Corporate and Other	**(180)**	(107)
Net income	**50**	286
Dividends on preferred stock	**76**	
Net income (loss) available to common shareholders	**($26)**	$ 286

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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 10: Commercial Banking

For the three months ended March 31 ($ in millions)	2009	2008
Income Statement Data		
Net interest income (FTE) *(a)*	**$ 335**	$ 349
Provision for loan and lease losses	**217**	126
Noninterest income:		
Corporate banking revenue	**108**	102
Service charges on deposits	**48**	44
Other noninterest income	**23**	14
Noninterest expense:		
Salaries, incentives and benefits	**59**	64
Other noninterest expenses	**178**	157
Income before taxes	**60**	162
Applicable income tax expense (benefit) *(a)*	**(7)**	33
Net income	**$ 67**	$ 129
Average Balance Sheet Data		
Commercial loans	**$ 43,220**	$ 40,602
Demand deposits	**7,519**	5,781
Interest checking	**5,300**	4,871
Savings and money market	**2,766**	4,669
Certificates over $100,000	**4,044**	1,759
Foreign office deposits	**1,288**	2,086

(a) Includes fully taxable-equivalent adjustments of $3 million and $4 million, respectively, for the three months ended March 31, 2009 and 2008.

Net income decreased $62 million, or 48%, compared to the first quarter of 2008 as an income tax benefit and growth in noninterest income, including corporate banking revenue, was more than offset by increased provision for loan and lease losses, increased loan and lease expenses and a decline in net interest income. Average commercial loans and leases increased $2.6 billion, or six percent, over the prior year quarter, including increases of $2.7 billion and $543 million in commercial loans and commercial mortgage loans, respectively, offset by a $460 million decrease in commercial construction loans. The overall increase in commercial loans and leases is due to acquisitions since the first quarter of 2008, commercial loans related to VRDNs and the use of contingent liquidity facilities. Excluding the impact of $1.6 billion from acquisitions, $826 million from the use of contingent liquidity facilities and approximately $205 million in draws on commercial loans related to VRDNs, average commercial loans and leases were flat compared to the first quarter of 2008.

Average core deposits decreased three percent compared to the first quarter of 2008 as the Commercial Banking segment experienced a shift from savings 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 a shift from repo sweeps, as well as the shift from transaction accounts due to the FDIC guarantee program. Net charge-offs as a percent of average loans and leases increased to 206 bp from 128 bp in the first 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 $19 million, or 12%, compared to the same quarter last year due to corporate banking revenue growth of $6 million and gains of $13 million from the sale of commercial loans held for sale. Corporate banking revenue increased as a result of higher lease remarketing and business lending fees, offset by lower derivative fee income. The net gain on sale of commercial loans held for sale resulted from slightly favorable prices realized on certain commercial loans designated as held for sale in the fourth quarter of 2008.

Noninterest expense increased $16 million, or seven percent, compared to the first quarter of 2008 primarily due to higher loan and lease expense from increased collections activities compared to the first quarter of 2008. Additionally, FDIC insurance costs increased as a result of higher assessment rates during the first quarter of 2009.

The Commercial Banking segment had an income tax benefit resulting from the settlement of litigation with the IRS related to leveraged leases in the first quarter of 2009. The settlement agreement resulted in reduced income tax expense pertaining to a reduction in tax reserves related to these exposures. For further information, see Note 11 of the Notes to Condensed Consolidated Financial Statements.

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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 1,311 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 11: Branch Banking

For the three months ended March 31 ($ in millions)	2009	2008
Income Statement Data		
Net interest income	**$ 380**	$ 408
Provision for loan and lease losses	**128**	64
Noninterest income:		
Service charges on deposits	**96**	101
Electronic payment processing	**47**	43
Investment advisory income	**19**	22
Other noninterest income	**19**	25
Noninterest expense:		
Salaries, incentives and benefits	**125**	127
Net occupancy and equipment expenses	**42**	38
Other noninterest expenses	**158**	133
Income before taxes	**108**	237
Applicable income tax expense	**38**	83
Net income	**$ 70**	$ 154
Average Balance Sheet Data		
Consumer loans	**$ 13,177**	$ 12,357
Commercial loans	**5,545**	5,291
Demand deposits	**6,144**	5,687
Interest checking	**7,406**	7,969
Savings and money market	**16,230**	16,035
Other time	**14,184**	10,712

Net income decreased $84 million, or 54%, compared to the first quarter of 2008 resulting from lower net interest income, a higher provision for loan and lease losses, as well as increased FDIC insurance costs. Net interest income decreased $28 million, or seven percent, due to the decrease in yields related to interest checking and savings and money market accounts. Average loans and leases increased six percent compared to the first quarter of 2008 as home equity lines and loans increased $1.0 billion and credit card balances increased by $181 million, or 12%. The increase in home equity lines and loans is attributed to $454 million in loans from the First Charter acquisition in 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 eight percent over the first quarter of 2008 with 32% 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 278 bp from 146 bp in the first quarter of 2008. Net charge-offs increased in comparison to the prior year quarter as the Bancorp experienced higher charge-offs involving commercial loans reflecting borrower stress, and home equity lines and loans from a decrease in home prices within the Bancorp s footprint. Credit card charge-offs also increased due to borrower stress and a seasoning of the credit card portfolio.

Noninterest income decreased five percent compared to the first quarter of 2008 as service charges on deposits decreased $5 million, or five percent due to lower transaction volumes. Noninterest expense increased $27 million, or nine percent, compared to the first quarter of 2008 primarily due to higher FDIC insurance costs, which increased $17 million. FDIC insurance costs increased due to higher assessment rates during the first quarter of 2009. Net occupancy and equipment costs increased nine percent as a result of additional banking centers acquired from First Charter. Since the first quarter of 2008, the Bancorp s banking centers have increased by 79 to 1,311 as of March 31, 2009.

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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 12: Consumer Lending

For the three months ended March 31 ($ in millions)	2009	2008
Income Statement Data		
Net interest income	**$ 132**	$ 113
Provision for loan and lease losses	**133**	76
Noninterest income:		
Mortgage banking net revenue	**131**	93
Other noninterest income	**25**	19
Noninterest expense:		
Salaries, incentives and benefits	**43**	39
Other noninterest expenses	**68**	51
Income before taxes	**44**	59
Applicable income tax expense	**15**	21
Net income	**$ 29**	$ 38
Average Balance Sheet Data		
Residential mortgage loans	**$ 10,763**	$ 11,229
Home equity	**1,051**	1,218
Automobile loans	**7,845**	9,560
Consumer leases	**735**	787

Net income decreased $9 million compared to the first quarter of 2008 as increased net interest income and mortgage banking net revenue were offset by growth in provision for loan and lease losses and increased loan processing expense. Net interest income increased $19 million compared to the first quarter of 2008 due in part to the accretion of purchase accounting adjustments, totaling $10 million, related to the acquisition of First Charter and $8 million related to an increase in the investment portfolio involving mortgage-backed securities over the prior year quarter. Average residential mortgage loans decreased four percent compared to the first quarter of 2008 as the addition of loans acquired from First Charter was offset by an overall decrease in residential mortgage loans held in the portfolio. Average automobile loans decreased primarily due to the securitization of $2.7 billion in automobile loans during the first quarter of 2008. Net charge-offs as a percent of average loan and leases increased from 151 bp in the first quarter of 2008 to 286 bp in the first quarter of 2009. Net charge-offs, primarily in residential mortgage loans, increased in comparison to the prior year quarter due to a weakening economy and deteriorating real estate values within the Bancorp s footprint, particularly in Michigan and Florida. During the first quarter of 2009, Michigan and Florida accounted for approximately 79% of the residential mortgage charge-offs in the Consumer Lending segment. 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 March 31, 2009, the Bancorp had restructured approximately $657 million and $332 million of residential mortgage loans and home equity loans, respectively, to mitigate losses due to declining collateral values.

Mortgage banking net revenue increased from strong growth in originations and high sales margins during the first quarter of 2009. Consumer Lending had mortgage originations of $4.9 billion, an increase of 27% 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 first quarter of 2009. Loan processing expense grew $5 million, or 52%, compared to the first quarter of 2008 due to the growth in mortgage originations and increased collection activities.

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

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. The table below contains selected financial data for the Processing Solutions segment.

TABLE 13: Processing Solutions

For the three months ended March 31 ($ in millions)	2009	2008
Income Statement Data		
Net interest income	**$ 3**	$
Provision for loan and lease losses	**3**	3
Noninterest income:		
Financial institutions processing	**95**	90
Merchant processing	**81**	77
Card issuer interchange	**19**	19
Other noninterest income	**10**	12
Noninterest expense:		
Salaries, incentives and benefits	**20**	20
Payment processing expense	**65**	64
Other noninterest expenses	**50**	49
Income before taxes	**70**	62
Applicable income tax expense	**24**	22
Net income	**$ 46**	$ 40

Net income increased $6 million, or 14%, compared to the first quarter of 2008 as the segment continues to increase its presence in the electronic payment processing business. On a year-over-year basis, the segment continued to experience growth in transaction volumes and revenue, despite the slowdown in consumer spending, due to the addition and conversion of large national clients since the first quarter of 2008. Financial institutions processing revenues increased $5 million, or six percent, compared to the first quarter of 2008 as a result of higher transaction volumes as debit card use continues to replace cash and checks at the point of sale transaction. Merchant processing revenue increased $4 million, or four percent, over the same quarter last year from higher debit processing revenue. The Bancorp continues to see significant opportunities to attract new financial institution customers and retailers within this business segment.

Payment processing expense was relatively flat compared to the first quarter of 2008 as higher network charges resulting from a 15% increase in debit transaction volumes was offset by lower card management expenses. Overall, expenses have moderated and are consistent with revenue growth as the business has been able to leverage its size and the conversion of its large national clients.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (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 14: Investment Advisors

For the three months ended March 31 ($ in millions)	2009	2008
Income Statement Data		
Net interest income	**$ 37**	$ 48
Provision for loan and lease losses	**9**	5
Noninterest income:		
Investment advisory revenue	**77**	94
Other noninterest income	**6**	8
Noninterest expense:		
Salaries, incentives and benefits	**34**	42
Other noninterest expenses	**49**	53
Income before taxes	**28**	50
Applicable income tax expense	**10**	18
Net income	**$ 18**	$ 32
Average Balance Sheet Data		
Loans and leases	**$ 3,288**	$ 3,439
Core deposits	**4,518**	5,153

Net income decreased $14 million compared to the first quarter of 2008 as a decline in operating expenses was more than offset by decreases in investment advisory revenue and net interest income. Investment Advisors realized average loan declines of four percent and average core deposit declines of 12% compared to the first quarter of 2008.

Noninterest income decreased $19 million, or 18%, compared to the first quarter of 2008, as investment advisory income decreased 18%, to $77 million, with institutional income declining $5 million, or 23%, driven by lower asset values on assets managed compared to the first quarter of 2008. Included within investment advisory income is brokerage income, which declined $6 million, or 20%, compared to the first quarter of 2008, reflecting the continued shift in assets from equity products to lower yielding money market funds due to market volatility as well as a decline in transaction-based revenues. Noninterest expense decreased due to a decline in compensation and bonuses within salaries, incentives and benefits. Compensation expense and incentive compensation decreased $4 million and $5 million, respectively, as the number of employees declined and bonuses were based on lower revenue levels. As of March 31, 2009, the Bancorp had $166 billion in assets under care and $23 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 first quarter of 2009 results of General Corporate and Other were primarily impacted by a tax benefit of $106 million from the surrender of one of the Bancorp s BOLI policies partially offset by a $54 million BOLI charge for reserves recorded in connection with the intent to surrender the policy, as well as losses related to market value declines. The results in the first quarter of 2008 included $273 million in income related to the redemption of a portion of the Bancorp s ownership interests in Visa, a $152 million reversal of expenses representing a portion of previously recorded litigation reserves, both associated with Visa s initial purchase offer, as well as a $152 million charge to reflect the lower cash surrender value of one of the Bancorp s BOLI policies.

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

BALANCE SHEET ANALYSIS

Tables 15 and 16 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 15: Components of Total Loans and Leases (includes held for sale)

($ in millions)	March 31, 2009 Balance	March 31, 2009 % of Total	December 31, 2008 Balance	December 31, 2008 % of Total	March 31, 2008 Balance	March 31, 2008 % of Total
Commercial:						
Commercial loans	**$ 28,627**	**34**	$ 29,220	34	$ 27,937	33
Commercial mortgage loans	**12,768**	**15**	12,952	15	12,155	14
Commercial construction loans	**4,930**	**6**	5,114	6	5,592	7
Commercial leases	**3,521**	**4**	3,666	5	3,727	5
Subtotal commercial	**49,846**	**59**	50,952	60	49,411	59
Consumer:						
Residential mortgage loans	**10,972**	**13**	10,292	12	10,985	13
Home equity	**12,710**	**15**	12,752	15	11,803	14
Automobile loans	**8,688**	**10**	8,594	10	8,394	10
Credit card	**1,816**	**2**	1,811	2	1,686	2
Other consumer loans and leases	**1,139**	**1**	1,194	1	1,180	2
Subtotal consumer	**35,325**	**41**	34,643	40	34,048	41
Total loans and leases	**$ 85,171**	**100**	$ 85,595	100	$ 83,459	100

Total loans and leases increased $1.7 billion, or two percent, over the first quarter of 2008. The growth in total loans and leases was due to acquisitions since the first quarter of 2008 and the use of contingent liquidity facilities related to certain off-balance sheet programs.

Total commercial loans and leases increased $435 million, or one percent, compared to March 31, 2008. The increase compared to the first quarter of 2008 was primarily a result of acquiring $1.6 billion of commercial loans related to the First Charter acquisition in the second quarter of 2008 and an additional $1.5 billion 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, partially offset by a decrease in commercial construction loans. Included within the contingent liquidity facilities were approximately $204 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 9 of the Notes to Condensed Consolidated Financial Statements. Commercial mortgage loans increased five percent and commercial loans increased two percent over the first quarter of 2008, which included the impact of acquisitions since the first quarter of 2008. Commercial construction loans decreased 12%, or $663 million, compared to the first quarter of 2008 due to management s strategy to suspend new lending to homebuilders and commercial non-owner occupied real estate and raise underwriting standards for all commercial products. The overall mix of commercial loans and leases is relatively consistent with prior periods.

Total consumer loans and leases increased $1.3 billion, or four percent, compared to March 31, 2008, as a result of $1.0 billion in consumer loans related to the First Charter acquisition in the second quarter of 2008 and an increase in home equity loans, automobile loans, and credit card loans. Home equity loans increased $907 million or eight percent over the first quarter of 2008, due to acquisition activity and new product offerings in 2008. Automobile loans increased $294 million, or four percent, compared to the first quarter of 2008, due to acquisition activity and a build up in the portfolio after the first quarter of 2008 automobile loan securitizations. Credit card loans increased to $1.8 billion, an increase of eight percent over the first quarter of 2008, due to the Bancorp s continued success in cross-selling credit cards to its existing retail customer base.

Average total commercial loans and leases increased $2.5 billion, or five percent, compared to the first quarter of 2008. The increase in average total commercial loans and leases was primarily driven by growth in commercial loans and commercial mortgage loans, which increased nine percent and six percent, respectively, partially offset by an eight percent decrease in commercial construction loans compared to the first quarter of 2008. Growth in overall average commercial loans and leases was primarily due to the previously mentioned acquisitions subsequent to the first quarter of 2008. The decrease in commercial construction loans was primarily due to the elimination of new originations, as previously mentioned.

Average total consumer loans and leases decreased $1.6 billion, or four percent, compared to the first quarter of 2008 as a result of a decrease in automobile loans of 18% largely due to the $2.7 billion automobile securitizations that occurred in the first quarter of 2008, a decrease in residential mortgage loans of $778 million, or seven percent, partially offset by an increase in home equity loans of $917 million, or eight percent. The Bancorp experienced a decrease in average consumer loans and leases in a majority of its markets with the exception of North Carolina, which increased $584 million due primarily to acquisition activity.

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

TABLE 16: Components of Average Total Loans and Leases (includes held for sale)

	March 31, 2009		December 31, 2008		March 31, 2008	
($ in millions)	**Balance**	**% of Total**	**Balance**	**% of Total**	**Balance**	**% of Total**
Commercial:						
Commercial loans	**$ 28,968**	**34**	$ 30,227	35	$ 26,617	31
Commercial mortgage loans	**12,809**	**15**	13,194	15	12,052	14
Commercial construction loans	**5,115**	**6**	5,990	7	5,577	7
Commercial leases	**3,564**	**4**	3,610	4	3,723	4
Subtotal commercial	**50,456**	**59**	53,021	61	47,969	56
Consumer:						
Residential mortgage loans	**10,921**	**13**	10,327	12	11,699	14
Home equity	**12,763**	**15**	12,677	14	11,846	14
Automobile loans	**8,687**	**10**	8,428	10	10,542	13
Credit card	**1,825**	**2**	1,748	2	1,660	2
Other consumer loans and leases	**1,177**	**1**	1,225	1	1,196	1
Subtotal consumer	**35,373**	**41**	34,405	39	36,943	44
Total average loans and leases	**$ 85,829**	**100**	$ 87,426	100	$ 84,912	100
Total portfolio loans and leases (excludes held for sale)	**$ 83,561**		$ 86,369		$ 80,945	

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 March 31, 2009, total investment securities were $18.7 billion compared to $13.0 billion at March 31, 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 portfolio for other- than-temporary impairment (OTTI) on the basis of both the duration of the decline in value of the security and the severity of that decline, and maintains the intent and ability to hold these securities to the earlier of the recovery of the loss or maturity.

At March 31, 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 March 31, 2009.

TABLE 17: Components of Investment Securities

($ in millions)	**March 31, 2009**	**December 31, 2008**	**March 31, 2008**

Trading:			
Variable rate demand notes	**$ 1,229**	1,140	
Other securities	**178**	51	184
Total trading	**$ 1,407**	1,191	184
Available-for-sale and other: (amortized cost basis)			
U.S. Treasury and Government agencies	**$ 185**	186	3
U.S. Government sponsored agencies	**2,351**	1,651	160
Obligations of states and political subdivisions	**300**	323	441
Agency mortgage-backed securities	**9,391**	8,529	9,473
Other bonds, notes and debentures	**3,097**	613	1,213
Other securities	**1,318**	1,248	1,127
Total available-for-sale and other securities	**$ 16,642**	12,550	12,417
Held-to-maturity:			
Obligations of states and political subdivisions	**$ 353**	355	349
Other bonds, notes and debentures	**5**	5	4
Total held-to-maturity	**$ 358**	360	353

Trading securities increased from $184 million as of March 31, 2008 to $1.4 billion as of March 31, 2009. The increase was driven by $1.2 billion of VRDNs held by the Bancorp in its trading securities portfolio at March 31, 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 9 of the Notes to Condensed Consolidated Financial Statements.

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

Information presented in Table 18 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.

TABLE 18: Characteristics of Available-for-Sale and Other Securities

As of March 31, 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	0.8	2.17%
Average life 1 5 years	103	105	1.4	2.00
Average life 5 10 years	1	1	9.7	1.48
Average life greater than 10 years	1	1	11.3	1.19
Total	185	188	1.2	2.07
U.S. Government sponsored agencies:				
Average life of one year or less	4	4	0.3	5.46
Average life 1 5 years	168	172	1.5	3.10
Average life 5 10 years	2,179	2,216	7.6	3.61
Average life greater than 10 years				
Total	2,351	2,392	7.1	3.58
Obligations of states and political subdivisions *(a)*:				
Average life of one year or less	222	223	0.2	7.32
Average life 1 5 years	30	30	2.8	7.35
Average life 5 10 years	48	49	7.3	6.86
Average life greater than 10 years				
Total	300	302	1.6	7.25
Agency mortgage-backed securities:				
Average life of one year or less	1,504	1,526	0.7	4.90
Average life 1 5 years	7,471	7,688	2.5	5.06
Average life 5 10 years	416	440	5.6	5.18
Average life greater than 10 years				
Total	9,391	9,654	2.4	5.04
Other bonds, notes and debentures *(b)*:				
Average life of one year or less	1,895	1,883	0.3	1.98
Average life 1 5 years	927	926	2.3	7.39
Average life 5 10 years	101	83	6.6	7.49
Average life greater than 10 years	174	170	27.2	1.81
Total	3,097	3,062	2.6	3.77
Other securities *(c)*	1,318	1,318		
Total available-for-sale and other securities	$ 16,642	$ 16,916	3.1	4.56%

(a) *Taxable-equivalent yield adjustments included in the above table are 2.50%, 1.79%, 0.20% and 2.06% for securities with an average life of one year or less, 1-5 years, 5-10 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.*

On an amortized cost basis, at March 31, 2009, available-for-sale securities increased $4.2 billion since March 31, 2008. The Bancorp purchases and sells investment securities in order to manage its interest rate risk and liquidity position as well as provide collateral for its public funds deposits. In the first quarter of 2009, financial market volatility created attractive investment opportunities. As a result, the Bancorp provided liquidity to the consumer ABS market by purchasing $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 purchase of an additional $553 million of commercial paper from an unconsolidated QSPE. At March 31, 2009, available-for-sale securities have increased to 16% of interest-earning assets, compared to 13% at March 31, 2008. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 3.1 years at March 31, 2009 compared to 6.0 years at March 31, 2008. The decrease in the weighted-average life of the debt securities portfolio was due to a decline in market rates, which increased the likelihood that borrowers would refinance, decreasing the weighted-average life of agency mortgage-backed securities, which are a majority of the Bancorp s available-for-sale portfolio. At March 31, 2009, the fixed-rate securities within the available-for-sale securities portfolio had a weighted-average yield of 4.56% compared to 5.20% at March 31, 2008. The available-for-sale portfolio, which is largely comprised of fixed-rate securities, benefited from the decline in market rates, which led to an increase in net unrealized gains from $4 million at March 31, 2008 to $274 million at March 31, 2009.

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

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. The commercial paper is backed by the assets held by the QSPE and, as of the March 31, 2009 and 2008, the Bancorp held $1.2 billion and $600 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.

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 by expanding its retail franchise through offering competitive rates and enhancing its product offerings. At March 31, 2009, core deposits represented 57% of the Bancorp s asset funding base, compared to 59% at March 31, 2008.

Core deposits grew four percent compared to March 31, 2008. Growth in core deposits included $2.4 billion attributable to the acquisition of First Charter. Excluding deposits from acquisitions, core deposits remained at a consistent level from the first quarter of 2008 as the Bancorp experienced a mix shift from money market and other time accounts to demand deposits. Demand deposits grew 18% from the first quarter of 2008. The increase was primarily driven by a 22% year-over-year growth in commercial demand deposits, which 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.

Certificates $100,000 and over increased by $6.8 billion compared to March 31, 2008, primarily driven by an increase in customer jumbo certificates of deposit in an overall effort by the Bancorp to reduce exposure to market related funding. Additionally, growth in certificates of deposit $100,000 and over included $740 million attributable to the acquisition of First Charter.

On an average basis, core deposits increased four percent and included customer migration from low interest rate checking to higher yielding accounts compared to the first quarter of 2008. Excluding the First Charter acquisition, average core deposits were flat compared to March 31, 2008. On a year-over-year basis, the Bancorp realized growth in demand, savings, and certificates of deposit balances, which more than offset the decrease in interest checking, money market, and foreign office commercial sweep deposits.

TABLE 19: Deposits

($ in millions)	March 31, 2009 Balance	% of Total	December 31, 2008 Balance	% of Total	March 31, 2008 Balance	% of Total
Demand	**$ 16,370**	**21**	$ 15,287	19	$ 14,949	21
Interest checking	**14,510**	**18**	14,222	18	14,842	21
Savings	**16,517**	**21**	16,063	20	16,572	23
Money market	**4,353**	**5**	4,689	6	7,077	10
Foreign office	**1,671**	**2**	2,144	3	2,354	3
Transaction deposits	**53,421**	**67**	52,405	66	55,794	78
Other time	**14,571**	**18**	14,350	19	9,883	14
Core deposits	**67,992**	**85**	66,755	85	65,677	92
Certificates - $100,000 and over	**11,784**	**15**	11,851	15	4,993	7
Other foreign office	**6**		7		731	1
Total deposits	**$ 79,782**	**100**	$ 78,613	100	$ 71,401	100

TABLE 20: Average Deposits

($ in millions)	March 31, 2009 Balance	March 31, 2009 % of Total	December 31, 2008 Balance	December 31, 2008 % of Total	March 31, 2008 Balance	March 31, 2008 % of Total
Demand	**$ 15,532**	**20**	14,602	19	$ 13,208	18
Interest checking	**14,229**	**18**	13,698	18	14,836	20
Savings	**16,272**	**21**	15,960	20	16,075	22
Money market	**4,559**	**6**	4,983	6	6,896	9
Foreign office	**1,755**	**2**	1,876	2	2,443	3
Transaction deposits	**52,347**	**67**	51,119	65	53,458	72
Other time	**14,501**	**18**	13,337	18	10,884	15
Core deposits	**66,848**	**85**	64,456	83	64,342	87
Certificates - $100,000 and over	**11,802**	**15**	12,468	16	5,835	8
Other foreign office	**247**		1,090	1	3,861	5
Total deposits	**$ 78,897**	**100**	78,014	100	$ 74,038	100

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

Borrowings

Total borrowings declined by $2.4 billion, or nine percent, over March 31, 2008, due to the decline in federal funds purchased and long-term debt, which more than offset the increase in other short-term borrowings. As of March 31, 2009 and March 31, 2008, total borrowings as a percentage of interest-bearing liabilities were 27% and 32%, respectively.

Total short-term borrowings were $11.4 billion at March 31, 2009 compared to $12.0 billion at March 31, 2008 as the Bancorp shifted from federal funds to other short-term borrowings due to market illiquidity and uncertainty in the federal funds market since the first quarter of 2008. Other short-term borrowings consist of $9.3 billion in Term Auction Facility funds and $1.8 billion in FHLB advances at March 31, 2009.

Long-term debt at March 31, 2009 decreased 13% compared to March 31, 2008. In the first quarter of 2009, a $1.0 billion FHLB advance matured resulting in a decrease of long-term debt. As a result, in order to meet current borrowing needs, the Bancorp chose to increase its other short-term borrowings.

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.

TABLE 21: Borrowings

($ in millions)	March 31, 2009	December 31, 2008	March 31, 2008
Federal funds purchased	**$ 363**	287	$ 5,612
Other short-term borrowings	**11,076**	9,959	6,387
Long-term debt	**12,178**	13,585	14,041
Total borrowings	**$ 23,617**	23,831	$ 26,040

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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 first 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 homebuilders and to commercial non-owner occupied real estate, discontinued the origination of brokered home equity products and raised underwriting standards on residential mortgages and commercial real estate loans. 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 first quarter of 2009, the Bancorp continued to aggressively engage in other loss mitigation techniques such as reducing lines of credit, restructuring certain consumer loans, tightening underwriting standards on commercial real estate loans and 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 22 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 first quarter of 2009, commercial real estate underwriting standards were further tightened requiring lower LTV ratios on all commercial real estate loans.

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 22: Commercial Loan and Lease Portfolio *(a)*

		2009			2008	
As of March 31 ($ in millions)	**Outstanding**	**Exposure**	**Nonaccrual**	**Outstanding**	**Exposure**	**Nonaccrual**
By industry:						
Real estate	**$ 11,470**	**13,654**	**509**	$ 11,837	14,935	241
Manufacturing	**7,634**	**14,077**	**147**	7,201	14,311	43
Construction	**4,787**	**6,955**	**727**	5,052	8,273	369
Financial services and insurance	**3,618**	**8,062**	**37**	2,850	7,252	36
Retail trade	**3,396**	**6,352**	**175**	4,401	7,398	49
Healthcare	**3,165**	**5,197**	**52**	2,735	4,476	17
Business services	**2,793**	**5,046**	**38**	2,347	4,362	33
Transportation & warehousing	**2,608**	**3,071**	**27**	2,681	3,211	31
Wholesale trade	**2,417**	**4,627**	**36**	2,355	4,400	29
Other services	**1,211**	**1,698**	**25**	1,022	1,411	16
Accommodation and food	**1,133**	**1,605**	**29**	1,110	1,577	49
Individuals	**1,032**	**1,297**	**40**	1,187	1,588	27
Communication and information	**909**	**1,465**	**19**	820	1,489	5
Mining	**862**	**1,269**	**17**	520	1,017	3
Entertainment and recreation	**745**	**995**	**36**	634	878	13
Public administration	**729**	**931**		777	1,041	
Agribusiness	**617**	**779**	**16**	591	799	3
Utilities	**502**	**1,241**		395	1,300	
Other	**218**	**398**	**7**	898	1,581	67
Total	**$ 49,846**	**78,719**	**1,937**	$ 49,413	81,299	1,031
By loan size:						
Less than $200,000	**3%**	**2**	**5**	3	2	7
$200,000 to $1 million	**12**	**9**	**21**	13	10	19
$1 million to $5 million	**25**	**21**	**39**	27	23	43
$5 million to $10 million	**23**	**22**	**14**	25	23	18
$10 million to $25 million	**14**	**15**	**14**	13	14	9
Greater than $25 million	**23**	**31**	**7**	19	28	4
Total	**100%**	**100**	**100**	100	100	100
By state:						
Ohio	**26%**	**30**	**16**	27	30	16
Michigan	**17**	**15**	**18**	19	18	31
Florida	**9**	**7**	**16**	11	9	26
Illinois	**8**	**9**	**10**	9	9	6
Indiana	**7**	**7**	**8**	8	8	7
Kentucky	**5**	**5**	**6**	5	5	4
North Carolina	**3**	**3**	**1**	1	1	
Tennessee	**2**	**2**	**4**	3	3	2
Pennsylvania	**2**	**2**	**1**	2	2	
All other states	**21**	**20**	**20**	15	15	8
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; exposure reflects total commercial customer lending commitments.

As of March 31, 2009, the Bancorp had homebuilder exposure of $3.4 billion and outstanding loans of $2.5 billion with $511 million in portfolio commercial loans and $177 million in held-for-sale commercial loans classified as nonaccrual loans. As of March 31, 2009, approximately 41% of the outstanding loans to homebuilders are located in the states of Michigan and Florida and represent approximately 50% of the nonaccrual loans. As of March 31, 2008, the Bancorp had homebuilder exposure of $4.1 billion, outstanding loans of $2.7 billion with $309 million in nonaccrual loans.

The commercial portfolio has $640 million outstanding with $1.4 billion in exposure to automobile suppliers and $456 million in nonaccrual loans with $1.8 billion outstanding and $2.8 billion of direct exposure to automobile dealers and $130 million in nonaccrual loans as of March 31, 2009.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

Table 23 provides further information on the location of commercial real estate and construction industry loans and leases.

TABLE 23: Outstanding Commercial Real Estate and Construction Loans and Leases by State

	Outstanding		Nonaccrual	
As of March 31 ($ in millions)	**2009**	**2008**	**2009**	**2008**
Ohio	**$ 3,997**	4,220	**$ 198**	108
Michigan	**3,767**	4,655	**212**	229
Florida	**2,300**	2,796	**272**	174
Illinois	**1,330**	1,394	**117**	24
Indiana	**1,096**	1,280	**85**	42
North Carolina	**1,056**	23	**13**	1
Kentucky	**772**	818	**48**	12
Tennessee	**382**	490	**32**	11
All other states	**1,558**	1,213	**259**	9
Total	**$ 16,258**	16,889	**$ 1,236**	610

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 24 shows the Bancorp s originations of these products for the three months ended March 31, 2009 and 2008. 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 24: Residential Mortgage Originations

	2009		2008	
For the three months ended March 31 ($ in millions)	**Amount**	**Percent of total**	**Amount**	**Percent of total**
Greater than 80% LTV with no mortgage insurance	**$ 28**	**1%**	$ 7	%
Interest-only	**81**	**2**	432	11
Greater than 80% LTV and interest-only				
80/20 loans	**9**		31	1

Table 25 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 March 31, 2009 and 2008. The balance of the mortgage portfolio not included in Table 25 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 cost, as more than 97% of 2009 resets are expected to see no increase or a decrease in monthly payments, due to the decrease in mortgage rates over the past year.

TABLE 25: Residential Mortgage Outstandings

	2009			2008		
As of March 31 ($ in millions)	**Amount**	**Percent of total**	**Delinquency Ratio**	**Amount**	**Percent of total**	**Delinquency Ratio**
Greater than 80% LTV with no mortgage insurance	**$ 1,917**	**22%**	**11.86%**	$ 2,020	21%	9.91%
Interest-only	**1,580**	**18**	**6.14**	1,689	18	1.65
Greater than 80% LTV and interest-only	**398**	**4**	**8.74**	471	5	7.95

80/20 loans

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 March 31, 2009, the Bancorp held $112 million of Alt-A mortgage loans in its portfolio with approximately $21 million in nonaccrual.

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 March 31, 2009 and 2008 were $1.3 billion and 6.56%, and $1.5 billion and 4.66%, respectively. At March 31, 2009 and 2008, the Bancorp maintained a credit loss reserve on these loans sold with credit recourse of approximately $20 million and $16 million, respectively. See Note 9 of the Notes to Condensed Consolidated Financial Statements for further information.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

Home Equity Portfolio

The home equity portfolio is characterized by 81% of outstanding balances within the Bancorp s Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois. The portfolio has an average FICO score of 735 as of March 31, 2009, compared with 734 at March 31, 2008 and 735 at March 31, 2007. The Bancorp stopped origination of brokered home equity loans during the fourth quarter of 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. Further detail on location and origination LTV ratios is included in Table 26.

TABLE 26: Home Equity Outstandings

	2009			2008		
As of March 31 ($ in millions)	LTV less than 80%	LTV greater than 80%	Delinquency Ratio	LTV less than 80%	LTV greater than 80%	Delinquency Ratio
Ohio	**$ 1,978**	**$ 1,956**	**1.77%**	$ 1,876	$ 2,013	1.60%
Michigan	**1,448**	**1,232**	**2.74**	1,390	1,283	2.05
Indiana	**628**	**576**	**2.40**	617	624	1.80
Illinois	**869**	**575**	**2.73**	662	550	2.12
Kentucky	**530**	**543**	**2.03**	504	581	1.67
Florida	**738**	**285**	**4.89**	573	287	3.43
All other states	**380**	**972**	**3.73**	174	669	3.49
Total	**$ 6,571**	**$ 6,139**	**2.62%**	$ 5,796	$ 6,007	2.05%

Analysis of Nonperforming Assets

A summary of nonperforming assets is included in Table 27. 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 and (iii) 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 premium, accretion of loan discount 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. During the first quarter of 2009, the Bancorp modified its nonaccrual policy to exclude troubled debt restructured residential mortgage and consumer loans that were less than 90 days past due as determined by the modified terms because they were performing in accordance with the restructured terms. For comparability purposes, prior periods were adjusted to reflect this reclassification.

Total nonperforming assets, including loans held for sale, were $3.1 billion at March 31, 2009, compared to $2.5 billion at December 31, 2008 and $1.5 billion at March 31, 2008. At March 31, 2009, $403 million of nonaccrual commercial loans were held-for-sale compared to $473 million as of March 31, 2008. The nonaccrual loans in held for sale consisted primarily of real estate secured 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 March 31, 2009 was 3.19% compared to 2.38% as of December 31, 2008 and 1.81% as of March 31, 2008. The composition of nonaccrual credits continues to be concentrated in real estate as 78% of nonaccrual credits were secured by real estate as of March 31, 2009 compared to approximately 82% as of December 31, 2008 and approximately 81% as of March 31, 2008. Nonperforming assets as a percentage of total loans, leases and other assets, including other real estate owned, as of March 31, 2009 was 3.57% compared to 2.89% as of December 31, 2008 and 1.76% as of March 31, 2008.

Excluding the $403 million of nonperforming loans held-for-sale, commercial nonperforming loans and leases increased from $1 billion at March 31, 2008 to $1.9 billion as of March 31, 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 34% of total commercial nonaccrual credits as of March 31, 2009. As shown in Table 27, the real estate and construction industries contributed to approximately three-fourths of the year-over-year increase in nonaccrual credits. Of the $1.2 billion of real estate and construction nonaccrual credits, $688 million was related to homebuilders or developers.

Consumer nonperforming loans and leases increased from $236 million in the first quarter of 2008 to $459 million in the first quarter of 2009. The increase in consumer nonperforming loans is primarily attributable to declines in the housing markets in the Michigan, Florida, and Ohio, the rise in unemployment, and an increase in bankruptcy filings. 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 $167 million to nonperforming loans as of March 31, 2009 compared to $53 million in restructured loans as of March 31, 2008. As of March 31, 2009, redefault rates for restructured loans 30 days past due for residential mortgages loans, home equity loans and credit cards were 31%, 26% and 27% respectively.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

For the first quarter of 2009, interest income of $57 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.

TABLE 27: Summary of Nonperforming Assets and Delinquent Loans

($ in millions)	March 31, 2009	December 31, 2008	March 31, 2008
Nonaccrual loans and leases:			
Commercial loans	**$ 667**	541	300
Commercial mortgage loans	**692**	482	312
Commercial construction loans	**551**	362	408
Commercial leases	**27**	21	11
Residential mortgage loans	**265**	259	138
Home equity	**25**	26	42
Automobile loans	**2**	5	3
Other consumer loans and leases			
Restructured loans and leases (nonaccrual):			
Residential mortgage loans *(a)*	**81**	20	18
Home equity loans *(a)*	**39**	29	21
Automobile loans *(a)*	**1**	1	1
Credit card	**46**	30	3
Total nonperforming loans and leases	**2,396**	1,776	1,267
Repossessed personal property and other real estate owned	**252**	230	204
Total nonperforming assets	**2,648**	2,006	1,471
Nonaccrual loans held for sale	**403**	473	
Total nonperforming assets including loans held for sale	**3,051**	2,479	1,471
Commercial loans	**131**	76	73
Commercial mortgage loans	**124**	136	97
Commercial construction loans	**49**	74	49
Commercial leases	**6**	4	3
Residential mortgage loans *(b)*	**231**	198	192
Home equity	**105**	96	76
Automobile loans	**18**	21	14
Credit card	**68**	56	34
Other consumer loans and leases	**1**	1	1
Total 90 days past due loans and leases	**$ 733**	662	539
Nonperforming assets as a percent of total loans, leases and other assets, including other real estate owned *(c)*	**3.19%**	2.38	1.81
Allowance for loan and lease losses as a percent of total nonperforming assets	**116**	139	82

(a) During the first quarter of 2009, the Bancorp modified its 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 March 31, 2009, December 31, 2008 and March 31, 2008, these advances were $55 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 237 bp for the first quarter of 2009, compared to 750 bp for the fourth quarter of 2008 and 137 bp for the first quarter of 2008. Table 28 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 28: Summary of Credit Loss Experience

For the three months ended March 31 ($ in millions)	2009	2008
Losses charged off:		
Commercial loans	**($116)**	(39)
Commercial mortgage loans	**(79)**	(33)
Commercial construction loans	**(78)**	(72)
Residential mortgage loans	**(75)**	(34)
Home equity	**(73)**	(42)
Automobile loans	**(56)**	(44)
Credit card	**(38)**	(21)
Other consumer loans and leases	**(6)**	(8)
Total losses	**(521)**	(293)
Recoveries of losses previously charged off:		
Commercial loans	**13**	3
Commercial mortgage loans	**2**	
Commercial construction loans	**2**	
Residential mortgage loans		
Home equity	**1**	1
Automobile loans	**10**	9
Credit card	**2**	1
Other consumer loans and leases	**1**	3
Total recoveries	**31**	17
Net losses charged off:		
Commercial loans	**(103)**	(36)
Commercial mortgage loans	**(77)**	(33)
Commercial construction loans	**(76)**	(72)
Residential mortgage loans	**(75)**	(34)
Home equity	**(72)**	(41)
Automobile loans	**(46)**	(35)
Credit card	**(36)**	(20)
Other consumer loans and leases	**(5)**	(5)
Total net losses charged off	**$ (490)**	(276)
Net charge-offs as a percent of average loans and leases (excluding held for sale):		
Commercial loans	**1.45%**	.57
Commercial mortgage loans		