FIFTH THIRD BANCORP
Form 10-K
March 02, 2009
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2008 ANNUAL REPORT

FINANCIAL CONTENTS

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about Fifth Third Bancorp and/or the company as combined acquired entities 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 and/or the combined company including statements preceded by, followed by or that include the words or phrases such as believes, expects, anticipates, plans, trend, objective, continue, remain or similar or future or conditional verbs such as will, would, should, could, might, can, may or similar expressions. There are a number of important factors that co 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, one or more acquired entities and/or the combined company do business, are less favorable than expected; (2) deteriorating credit quality; (3) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (4) changes in the interest rate environment reduce interest margins; (5) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (6) Fifth Third s ability to maintain required capital levels and adequate sources of funding and liquidity; (7) maintaining capital requirements may limit Fifth Third s operations and potential growth; (8) changes and trends in capital markets; (9) problems encountered by larger or similar financial institutions may adversely affect the banking industry and/or Fifth Third (10) competitive pressures among depository institutions increase significantly; (11) effects of critical accounting policies and judgments; (12) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (13) legislative or regulatory changes or actions, or significant litigation, adversely affect Fifth Third, one or more acquired entities and/or the combined company or the businesses in which Fifth Third, one or more acquired entities and/or the combined company are engaged; (14) ability to maintain favorable ratings from rating agencies; (15) fluctuation of Fifth Third s stock price; (16) ability to attract and retain key personnel; (17) ability to receive dividends from its subsidiaries; (18) potentially dilutive effect of future acquisitions on current shareholders ownership of Fifth Third; (19) effects of accounting or financial results of one or more acquired entities; (20) difficulties in combining the operations of acquired entities; (21) lower than expected gains related to any potential sale of businesses; (22) loss of income from any potential sale of businesses that could have an adverse effect on Fifth Third s earnings and future growth; (23) ability to secure confidential information through the use of computer systems and telecommunications networks; and (24) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. 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

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

TABLE 1: SELECTED FINANCIAL DATA

For the years ended December 31 ($ in millions, except per share data)	**2008**	2007	2006	2005	2004
Income Statement Data					
Net interest income *(a)*	**$3,536**	3,033	2,899	2,996	3,048
Noninterest income	**2,946**	2,467	2,012	2,374	2,355
Total revenue *(a)*	**6,482**	5,500	4,911	5,370	5,403
Provision for loan and lease losses	**4,560**	628	343	330	268
Noninterest expense	**4,564**	3,311	2,915	2,801	2,863
Net income (loss)	**(2,113)**	1,076	1,188	1,549	1,525
Net income (loss) available to common shareholders	**(2,180)**	1,075	1,188	1,548	1,524
Common Share Data					
Earnings per share, basic	**$(3.94)**	2.00	2.14	2.79	2.72
Earnings per share, diluted	**(3.94)**	1.99	2.13	2.77	2.68
Cash dividends per common share	**.75**	1.70	1.58	1.46	1.31
Book value per share	**13.57**	17.18	18.00	16.98	15.99
Financial Ratios					
Return on assets	**(1.85)%**	1.05	1.13	1.50	1.61
Return on average common equity	**(23.0)**	11.2	12.1	16.6	17.2
Average equity as a percent of average assets	**8.78**	9.35	9.32	9.06	9.34
Tangible equity	**7.86**	6.05	7.79	6.87	8.35
Tangible common equity	**4.23**	6.14	7.95	7.22	8.50
Net interest margin *(a)*	**3.54**	3.36	3.06	3.23	3.48
Efficiency *(a)*	**70.4**	60.2	59.4	52.1	53.0
Credit Quality					
Net losses charged off	**$2,710**	462	316	299	252
Net losses charged off as a percent of average loans and leases	**3.23%**	.61	.44	.45	.45
Allowance for loan and lease losses as a percent of loans and leases	**3.31**	1.17	1.04	1.06	1.19
Allowance for credit losses as a percent of loans and leases *(b)*	**3.54**	1.29	1.14	1.16	1.31
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned *(c)*	**2.96**	1.32	.61	.52	.51
Average Balances					
Loans and leases, including held for sale	**$85,835**	78,348	73,493	67,737	57,042
Total securities and other short-term investments	**14,045**	11,994	21,288	24,999	30,597
Total assets	**114,296**	102,477	105,238	102,876	94,896
Transaction deposits *(d)*	**52,584**	50,987	49,678	48,177	43,260
Core deposits *(e)*	**63,719**	61,765	60,178	56,668	49,468
Wholesale funding *(f)*	**36,357**	27,254	31,691	33,615	33,629
Shareholders equity	**10,038**	9,583	9,811	9,317	8,860
Regulatory Capital Ratios					
Tier I capital	**10.59%**	7.72	8.39	8.35	10.31
Total risk-based capital	**14.78**	10.16	11.07	10.42	12.31
Tier I leverage	**10.27**	8.50	8.44	8.08	8.89

(a) Amounts presented on a fully taxable equivalent basis (FTE). The taxable equivalent adjustments for years ending December 31, 2008, 2007, 2006, 2005 and 2004 were $22 million, $24 million, $26 million, $31 million and $36 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) Includes demand, interest checking, savings, money market and foreign office deposits.
(e) Includes transaction deposits plus other time deposits.
(f) Includes certificates $100,000 and over, other foreign office deposits, federal funds purchased, short-term borrowings and long-term debt.

TABLE 2: QUARTERLY INFORMATION (unaudited)

	2008				2007			
For the three months ended ($ in millions, except per share data)	**12/31**	**9/30**	**6/30**	**3/31**	12/31	9/30	6/30	3/31
Net interest income (FTE)	**$897**	**1,068**	**744**	**826**	785	760	745	742

Provision for loan and lease losses	**2,356**	**941**	**719**	**544**	284	139	121	84
Noninterest income	**642**	**717**	**722**	**864**	509	681	669	608
Noninterest expense	**2,022**	**967**	**858**	**715**	940	853	765	753
Net income (loss)	**(2,142)**	**(56)**	**(202)**	**286**	16	325	376	359
Net income (loss) available to common shareholders	**(2,184)**	**(81)**	**(202)**	**286**	16	325	376	359
Earnings per share, basic	**(3.82)**	**(.14)**	**(.37)**	**.54**	.03	.61	.69	.65
Earnings per share, diluted	**(3.82)**	**(.14)**	**(.37)**	**.54**	.03	.61	.69	.65

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

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 December 31, 2008, the Bancorp had $119.8 billion in assets, operated 18 affiliates with 1,307 full-service Banking Centers including 92 Bank Mart® locations open seven days a week inside select grocery stores and 2,341 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 year ended December 31, 2008, net interest income, on a fully taxable equivalent (FTE) basis, and noninterest income provided 55% and 45% 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 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 electronic funds transfer (EFT) 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 merchant and financial institution clients.

On May 2, 2008, the Bancorp completed the purchase of nine branches located in Atlanta and deposits of $114 million from First Horizon National Corporation (First Horizon). On June 6, 2008, the Bancorp completed its acquisition of First Charter Corporation (First Charter), a regional financial services company with assets of $4.8 billion that operated 57 branches in North Carolina and 2 in suburban Atlanta, paying

$31.00 per First Charter share, or approximately $1.1 billion. On October 31, 2008, the Bancorp assumed approximately $257 million of deposits from the Federal Deposit Insurance Corporation (FDIC) acting as receiver for Freedom Bank in Bradenton, Florida.

Earnings Summary

During 2008, the Bancorp continued to be affected by the economic slowdown and market disruptions. The Bancorp s net loss was $2.2 billion, or $3.94 per diluted share, which included $67 million in preferred stock dividends. Net income was $1.1 billion, or $1.99 per diluted share, for 2007. Results for both years reflect a number of significant items.

Items affecting 2008 include:

- $965 million of noninterest expense due to a goodwill impairment charge reflecting the decline in estimated fair values of certain of the Bancorp s business reporting units below their carrying values and the determination that the implied fair values of the reporting units were less than their carrying values;
- $339 million and $19 million of net interest income due to the accretion of purchase accounting adjustments related to loans and deposits, respectively, from acquisitions during 2008;
- $273 million of other noninterest income related to the redemption of a portion of Fifth Third s ownership interests in Visa, Inc. (Visa) and $99 million in net reductions to noninterest expense to reflect the recognition of the Bancorp s proportional share of the Visa escrow account, partially offset by additional charges for probable future Visa litigation settlements;
- $229 million after-tax impact of charges relating to a change in the projected timing of cash flows relating to income taxes for certain leveraged leases. This charge consisted of approximately $130 million pre-tax, reflected as a reduction in interest income, and an increase of approximately $140 million in tax expense required for interest;
- $215 million reduction to other noninterest income to reflect the lower cash surrender value of one of the Bancorp s Bank Owned Life Insurance (BOLI) policies;
- $104 million reduction to noninterest income due to other-than-temporary impairment (OTTI) charges on Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) preferred stock and certain bank trust preferred securities;

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- $76 million of other noninterest income, partially offset by $36 million in related litigation expense, due to the successful resolution of a court case related to goodwill created in the 1998 acquisition of CitFed (the CitFed litigation); and
- Preferred stock dividends increased from $1 million to $67 million in 2008 due to the issuance of Series G preferred stock in the second quarter of 2008 and repurchase of Series D and Series E preferred stock in the fourth quarter of 2008. The repurchase of Series D and Series E preferred stock resulted in preferred stock dividends of $19 million, which was the amount of the repurchase price in excess of the par value of the preferred stock.

For comparison purposes, items affecting 2007 include:

- $177 million reduction to other noninterest income to reflect the lower cash surrender value of one of the Bancorp s BOLI policies;
- $172 million of other noninterest expense relating to the indemnification of estimated current and future Visa litigation settlements;
- $16 million of noninterest income from the sale of non-strategic credit card accounts; and
- $15 million of other noninterest income from the sale of FDIC deposit insurance credits.

Net interest income (FTE) increased to $3.5 billion, from $3.0 billion in 2007. The primary reason for the 17% increase in net interest income was an 11% increase in average interest-earning assets. Additionally, the benefit from the accretion of purchase accounting adjustments related to the second quarter acquisition of First Charter, totaling $358 million, was largely offset by $130 million in charges relating to leveraged leases and the cost of carrying higher balances of nonaccrual loans and leases. Net interest margin was 3.54% in 2008, an increase of 18 basis points (bp) from 2007.

Noninterest income increased 19%, from $2.5 billion to $2.9 billion, in 2008. The increase in noninterest income was impacted by a $273 million gain related to the redemption of a portion of Fifth Third s ownership interests in Visa, offset by $104 million due to OTTI charges on FNMA and FHLMC preferred stock and certain bank trust preferred securities. Growth occurred in several categories compared to 2007. Electronic payment processing revenue increased 11% due to higher transaction volumes. Service charges on deposits grew 11% due to decreased earnings credits and higher customer activity. Corporate banking revenue increased 21% as the Bancorp realized growth from the buildout of its suite of commercial products in 2007. Mortgage banking net revenue increased 50% due to higher sales margins, increased volume of portfolio loans sold and the impact of Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 .

Noninterest expense increased $1.3 billion compared to 2007. Noninterest expense in 2008 included $965 million of noninterest expense due to a goodwill impairment charge, the aforementioned $99 million reduction to expenses related to Visa litigation reserves and Visa s funding of an escrow account, $65 million increases in salaries and benefits from the

adoption of SFAS No. 159, and $36 million in litigation expense due to the successful resolution of the CitFed litigation. Noninterest expense in 2007 included $172 million related to the indemnification of estimated current and future Visa litigation settlements. The growth in noninterest expense can also be attributed to increased FDIC insurance due to the depletion of the Bancorp s prior FDIC insurance premium credits in 2008, a higher provision for unfunded commitments, increases in the credit component of fair value marks on counterparty derivatives, increases in loan and lease processing costs from higher collection activities over the past year and increased volume-related processing expenses.

The Bancorp does not originate subprime mortgage loans, does not hold credit default swaps and does not hold asset-backed securities backed by subprime mortgage loans in its securities portfolio. However, the Bancorp has exposure to disruptions in the capital markets and weakening economic conditions. The housing markets continued to weaken during 2008, particularly in the upper Midwest and Florida. Additionally, economic conditions deteriorated throughout 2008, putting significant stress on the Bancorp s commercial and consumer loan portfolios. Consequently, the provision for loan and lease losses increased to $4.6 billion for the year ended December 31, 2008 compared to $628 million during 2007. Net charge-offs as a percent of average loans and leases were 3.23% in 2008 compared to .61% in 2007. At December 31, 2008, nonperforming assets as a percent of loans, leases and other assets, including other real estate owned (excluding nonaccrual loans held for sale) increased to 2.96% from 1.32% at December 31, 2007. During the fourth quarter of 2008, the Bancorp sold or transferred to held-for-sale $1.3 billion in carrying value of commercial loans and incurred $800 million in charge-offs on those loans, in order to address some of the more problematic loan portfolios, specifically real estate loans in Florida and Michigan. Refer to the Credit Risk Management section in Management s Discussion and Analysis for more information on credit quality.

In response to the current economic operating environment and uncertain future trends, the Bancorp took actions to strengthen its capital position in 2008. During the second quarter of 2008, management raised its capital target to an eight to nine percent Tier 1 capital ratio and issued approximately $1.0 billion in Tier 1 capital in the form of convertible preferred shares. During 2008, the Bancorp reduced its common dividend due to the outlook for a continued negative credit environment, preserving over $580 million of capital in 2008 relative to the prior level, and nearly $1.0 billion in 2009. On December 31, 2008, the Bancorp received $3.4 billion as part of the U.S. Department of Treasury (U.S Treasury) Capital Purchase Program (CPP) and issued senior preferred stock and ten-year warrants under the terms of the program - impacting the Bancorp s Tier 1 capital ratio and total risk-based capital ratio by approximately 3.00%. 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 December 31, 2008, the Tier 1 capital ratio was 10.59%, the Tier 1 leverage ratio was 10.27% and the total risk-based capital ratio was 14.78%.

RECENT ACCOUNTING STANDARDS

Note 1 of the Notes to Consolidated Financial Statements provides a discussion of the significant new accounting standards adopted by the Bancorp during 2008 and 2007 and the expected impact of significant accounting standards issued, but not yet required to be adopted.

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

CRITICAL ACCOUNTING POLICIES

The Bancorp s 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 has six critical accounting policies, which 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 year ended December 31, 2008 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 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 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 loans, are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks. Allowances are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history by loan category. Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management s judgment, are necessary to reflect

losses inherent in the portfolio. Factors that management considers in the analysis include the effects of the national and local economies; trends in the nature and volume of delinquencies, charge-offs and nonaccrual loans; changes in loan mix; credit score migration comparisons; asset quality trends; risk management and loan administration; changes in the internal lending policies and credit standards; collection practices; and examination results from bank regulatory agencies and the Bancorp s internal credit examiners.

The Bancorp s current methodology for determining the allowance for loan and lease losses is based on historical loss rates, current credit grades, specific allocation on impaired commercial credits above specified thresholds and other qualitative adjustments. Allowances on individual loans and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience. An unallocated allowance is maintained to recognize the imprecision in estimating and measuring loss 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 determination of the allowance for commercial loans is sensitive to the risk grade it assigns to these loans. In the event that 10% of commercial loans in each risk category would experience a downgrade of one risk category, the allowance for commercial loans increase by approximately $190 million at December 31, 2008. The Bancorp s determination of the allowance for residential and retail loans is sensitive to changes in estimated loss rates. In the event that estimated loss rates increase by 10%, the allowance for residential and consumer loans would increase by approximately $100 million at December 31, 2008. As several quantitative and qualitative factors are considered in determining the allowance for loan and lease losses, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the allowance for loan and lease losses. They are intended to provide insights into the impact of adverse changes in risk grades and estimated loss rates and do not imply any expectation of future deterioration in the risk ratings or loss rates. Given current processes employed by the Bancorp, management believes the risk grades and estimated loss rates currently assigned are appropriate.

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 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 Consolidated Statements of Income.

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

Income Taxes

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

Deferred income tax assets and liabilities are determined using the balance sheet method and are reported in either other assets or accrued taxes, interest and expenses in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities and 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.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Consolidated Balance Sheets. The Bancorp evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period s income tax expense and can be significant to the operating results of the Bancorp. As described in greater detail in Note 16 of the Notes to Consolidated Financial Statements, the Internal Revenue Service (IRS) has challenged the Bancorp s tax treatment of certain leasing transactions. For additional information on income taxes, see Note 22 of the Notes to Consolidated Financial Statements.

Valuation of Servicing Rights

When the Bancorp sells loans through either securitizations or individual loan sales in accordance with its investment policies, it often obtains servicing rights. Servicing rights resulting from loan sales are initially recorded at fair value and subsequently amortized in proportion to, and over the period of, estimated net servicing income. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the prepayment speeds of the underlying loans, the weighted-average life, the discount rate, the weighted-average coupon and the weighted-average default rate, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speeds.

The Bancorp monitors risk and adjusts its valuation allowance as necessary to adequately reserve for impairment in the servicing portfolio. For purposes of measuring impairment, the 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 Consolidated Statements of Income as loan payments are received. Costs of servicing loans are charged to expense as incurred.

The change in the fair value of mortgage servicing rights (MSRs) at December 31, 2008 due to immediate 10% and 20% adverse changes in the current prepayment assumptions would be approximately $33 million and $63 million, respectively, and due to immediate 10% and 20% favorable changes in the current prepayment assumptions would be approximately $37 million and $78 million, respectively. The change in the fair value of the MSR portfolio at December 31, 2008 due to immediate 10% and 20% adverse changes in the discount rate assumption would be approximately $15 million and $30 million, respectively, and due to immediate 10% and 20% favorable changes in the discount rate assumption would be approximately $16 million and $34 million, respectively. The sensitivity analysis related to other consumer and commercial servicing rights is not material to the Bancorp s Consolidated Financial Statements. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% and 20% variation in assumptions typically cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the servicing rights is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the effect of the Bancorp s non-qualifying hedging strategy, which is maintained to lessen the impact of changes in value of the MSR portfolio, is excluded from the above analysis.

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.

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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 involve 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. 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 an absence of observable market data around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. A significant portion of the Bancorp s available-for-sale securities are agency mortgage-backed securities that are fair valued using a market approach and the Bancorp has determined them to be Level 2 in the fair value hierarchy. A significant portion of the Bancorp s trading securities are variable rate demand notes (VRDNs), that are fair valued using a market approach, and the Bancorp has determined them to be Level 2 in the fair value hierarchy.

Residential mortgage loans held for sale

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

Derivatives

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

determined them to be Level 2 in the fair value hierarchy.

Valuation techniques and parameters used for measuring financial assets and liabilities are reviewed and validated by the Bancorp on a quarterly basis. Additionally, the Bancorp monitors the fair values of significant assets and liabilities using a variety of methods including the evaluation of pricing runs and exception reports based on certain analytical criteria, comparison to previous trades and overall review and assessments for reasonableness.

In addition to the financial assets and liabilities measured at fair value on a recurring basis, the Bancorp measures servicing rights and certain loans at fair value on a nonrecurring basis. Refer to Note 25 of the Notes to 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 reported at and tested for impairment at the Bancorp s reporting unit level on an annual basis and more frequently in certain circumstances. These circumstances include significant declines in the Bancorp s stock price that result in a market capitalization below book value. 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. To determine the fair value of a reporting unit, the Bancorp employs an income-based approach, utilizing the reporting unit s forecasted cash flows (including a terminal value approach to estimate cash flows beyond the final year of the forecast) and the reporting unit s estimated cost of equity as the discount rate. Additionally, the Bancorp determines its market capitalization based on the average of the closing price of the Bancorp s stock during the month including the measurement date, incorporating an additional control premium, and allocates this market-based fair value measurement to the Bancorp s reporting units in order to corroborate the results of the income approach.

When required to perform Step 2, the Bancorp compares the implied fair value of a reporting unit s goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss equal to that excess amount is recognized, not to exceed the goodwill carrying amount. 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 Consolidated Financial Statements as a result of this assignment process. Refer to Note 8 of the Notes to Consolidated Financial Statements for further information regarding the Bancorp s goodwill.

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RISK FACTORS

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

If the strength of the U.S. economy in general and the strength of the local economies in which Fifth Third conducts operations continues to decline, this could result in, among other things, a deterioration in credit quality or a reduced demand for credit, including a resultant effect on Fifth Third s loan portfolio and allowance for loan and lease losses. A significant portion of Fifth Third s residential mortgage and commercial real estate loan portfolios are comprised of borrowers in Michigan, Northern Ohio and Florida, which markets have been particularly adversely affected by job losses, declines in real estate value, declines in home sale volumes, and declines in new home building. These factors could result in higher delinquencies and greater charge-offs in future periods, which would materially adversely affect Fifth Third s financial condition and results of operations.

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

Fifth Third has experienced a downturn in credit performance and expects credit conditions and the performance of its loan portfolio to continue to deteriorate in the near term. This caused Fifth Third to increase its allowance for loan and lease losses, driven primarily by higher allocations related to residential mortgage and home equity loans, commercial real estate loans and loans of entities related to or dependant upon the real estate industry. If the performance of Fifth Third s loan portfolio does not improve or stabilize, additional increases in the allowance for loan and lease losses may be necessary in the future. Accordingly, a decrease in the quality of Fifth Third s credit portfolio could have a material adverse effect on earnings and results of operations.

Fifth Third s results depend on general economic conditions within its operating markets.

The revenues of FTPS are dependent on the transaction volume generated by its merchant and financial institution customers. This transaction volume is largely dependent on consumer and corporate spending. If consumer confidence suffers and retail sales decline, FTPS will be negatively impacted. Similarly, if an economic downturn results in a decrease in the overall volume of corporate transactions, FTPS will be negatively impacted. FTPS is also impacted by the financial stability of its merchant customers. FTPS assumes certain contingent liabilities related to the processing of Visa® and MasterCard® merchant card transactions. These liabilities typically arise from billing disputes between the merchant and the cardholder that are ultimately resolved in favor of the cardholder. These transactions are charged back to the merchant and disputed amounts are returned to the cardholder. If FTPS is unable to collect these amounts from the merchant, FTPS will bear the loss.

The fee revenue of Investment Advisors is largely dependent on the fair market value of assets under care and trading volumes in the brokerage business. General economic conditions and their effect on the securities markets tend to act in correlation. When general economic conditions deteriorate, consumer and corporate confidence in securities markets erodes, and Investment Advisors revenues are negatively impacted as asset values and trading volumes decrease. Neutral economic conditions can also negatively impact revenue when stagnant securities markets fail to attract investors.

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

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

Fifth Third and its shareholders.

Fifth Third s ability to maintain required capital levels and adequate sources of funding and liquidity.

Fifth Third is required to maintain certain capital levels in accordance with banking regulations. Fifth Third must also maintain adequate funding sources in the normal course of business to support its operations and fund outstanding liabilities. Fifth Third s ability to maintain capital levels, sources of funding and liquidity could be impacted by changes in the capital markets in which it operates. Additionally, if Fifth Third sought additional sources of capital, liquidity or funding, those additional sources could dilute current shareholders ownership interests.

Each of Fifth Third s subsidiary banks must remain well-capitalized for Fifth Third to retain its status as a financial holding company. In addition, failure by Fifth Third s bank subsidiaries to meet applicable capital guidelines could subject the bank to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital, and the termination of deposit insurance by the FDIC.

As a regulated entity, Fifth Third must maintain certain capital requirements that may limit its operations and potential growth.

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

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

Fifth Third enters into and maintains trading and investment positions in the capital markets on its own behalf and on behalf of its customers. These investment positions also include derivative financial instruments. The revenues and profits Fifth Third derives from its trading and investment positions are dependent on market prices. If it does not correctly anticipate market changes and trends, Fifth Third may experience investment or trading losses that may materially affect Fifth Third and its shareholders. Losses on behalf of its customers could expose Fifth Third to litigation, credit risks or loss of revenue from those customers. Additionally, substantial losses in Fifth Third s trading and investment positions could lead to a loss with respect to those investments and may adversely affect cash flows and funding costs.

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

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

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

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

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

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. Two of Fifth Third s most critical estimates are the level of the allowance for loan and lease losses and the valuation of mortgage servicing rights. Due to the uncertainty of estimates involved, Fifth Third may have to significantly increase the allowance for loan and lease losses and/or sustain credit losses that are significantly higher than the provided allowance and could recognize a significant provision for impairment of its mortgage servicing rights. If Fifth Third s allowance for loan and lease losses is not adequate, Fifth Third s business, financial condition, including its liquidity and capital, and results of operations could be materially adversely

affected. For more information on the sensitivity of these estimates, please refer to the Critical Accounting Policies section.

Fifth Third regularly reviews its litigation reserves for adequacy considering its litigation risks and probability of incurring losses related to litigation. However, Fifth Third cannot be certain that its current litigation reserves will be adequate over time to cover its losses in litigation due to higher than anticipated settlement costs, prolonged litigation, adverse judgments, or other factors that are largely outside of Fifth Third s control. If Fifth Third s litigation reserves are not adequate, Fifth Third s business, financial condition, including its liquidity and capital, and results of operations could be materially adversely affected. Additionally, in the future, Fifth Third may increase its litigation reserves, which could have a material adverse effect on its capital and results of operations.

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

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

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

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

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

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies placing increased focus on and scrutiny of the financial services industry. The U.S. Government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis. In addition to participating in the U.S. Treasury s CPP, the U.S. Government has taken steps that include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances, and increasing insured deposits. These programs subject Fifth Third and other financial institutions who have participated in these programs to additional restrictions, oversight and/or costs that

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may have an impact on Fifth Third s business, financial condition, results of operations or the price of its common stock.

New proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry. Federal and state regulatory agencies also frequently adopt changes to their regulations and/or change the manner in which existing regulations are applied. Fifth Third cannot predict whether any pending or future legislation will be adopted or the substance and impact of any such new legislation on Fifth Third. Additional regulation could affect Fifth Third in a substantial way and could have an adverse effect on its business, financial condition and results of operations.

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

Fifth Third s ability to access the capital markets is important to its overall funding profile. This access is affected by the ratings assigned by rating agencies to Fifth Third, certain of its affiliates and particular classes of securities they issue. The interest rates that Fifth Third pays on its securities are also influenced by, among other things, the credit ratings that it, its affiliates and/or its securities receive from recognized rating agencies. A downgrade to Fifth Third s, or its affiliates , credit rating could affect its ability to access the capital markets, increase its borrowing costs and negatively impact its profitability. A ratings downgrade to Fifth Third, its affiliates or their securities could also create obligations or liabilities to Fifth Third under the terms of its outstanding securities that could increase Fifth Third s costs or otherwise have a negative effect on Fifth Third s results of operations or financial condition. Additionally, a downgrade of the credit rating of any particular security issued by Fifth Third or its affiliates could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

Fifth Third s stock price is volatile.

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

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

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

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

The financial services industry in which Fifth Third operates is highly competitive. Fifth Third competes not only with commercial banks, but also with insurance companies, mutual funds, hedge funds, and other companies offering financial services in the U.S., globally and over the internet. Fifth Third

competes on the basis of several factors, including capital, access to capital, products, services, transaction execution, innovation, reputation and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms. In fiscal 2008, this trend accelerated considerably, as several major U.S. financial institutions consolidated, were forced to merge, received substantial government assistance or were placed into conservatorship by the U.S. Government. These developments could result in Fifth Third s competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. Fifth Third may experience pricing pressures as a result of these factors and as some of its competitors seek to increase market share by reducing prices.

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

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

Pursuant to the standardized terms of the CPP described previously, among other things, Fifth Third has agreed to institute certain restrictions on the compensation of certain senior management positions, which could have an adverse effect on Fifth Third s ability to hire or retain the most qualified senior management. It is possible that the U.S. Treasury may, as it is permitted to do, impose further requirements on Fifth Third. If Fifth Third is unable to attract and retain qualified employees, or do so at rates necessary to maintain its competitive position, or if compensation costs required to attract and retain employees become more expensive, Fifth Third s performance, including its competitive position, could be materially adversely affected.

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

The total amount that Fifth Third pays for funding costs is dependent, in part, on Fifth Third s ability to grow its deposits. If Fifth Third is unable to sufficiently grow its deposits, it may be subject to paying higher funding costs. This could materially adversely affect Fifth Third s earnings and results of operations.

Fifth Third s ability to receive dividends from its subsidiaries accounts for most of its revenue and could affect its liquidity and ability to pay dividends.

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

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Fifth Third s ability to pay or increase dividends on its common stock or to repurchase its capital stock is restricted by the terms of the U.S. Treasury s preferred stock investment in Fifth Third.

In December 2008, Fifth Third sold $3.4 billion of its Series F Preferred Stock to the U.S. Treasury pursuant to the terms of the CPP. For so long as any preferred stock issued under the CPP remains outstanding, those terms prohibit Fifth Third from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the U.S. Treasury s consent until the third anniversary of the U.S. Treasury s investment or until the U.S. Treasury has transferred all of the preferred stock it purchased under the CPP to third parties. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including Fifth Third s common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

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

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

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

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

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

Material breaches in security of Fifth Third s systems may have a significant effect on Fifth Third s business.

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

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

Fifth Third owns several non-strategic businesses that are not significantly synergistic with its core financial services businesses. Fifth Third has, from time to time, considered the sale of such businesses, which could supplement its capital by an estimated additional $1 billion or more. If it were to determine to sell such businesses, Fifth Third would be subject to market forces that may make completion of a sale unsuccessful or may not be able to do so within a desirable time frame. If Fifth Third were to complete the sale of non-core businesses, it would suffer the loss of income from the sold businesses, and such loss of income could have an adverse effect on its future earnings and growth.

Fifth Third is exposed to operational and reputational risk.

Fifth Third is exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees, customers or outsiders, unauthorized transactions by employees or operational errors.

Negative public opinion can result from Fifth Third s actual or alleged conduct in activities, such as lending practices, data security, corporate governance and acquisitions, and may damage Fifth Third s reputation. Additionally, actions taken by government regulators and community organizations may also damage Fifth Third s reputation. This negative public opinion can adversely affect Fifth Third s ability to attract and keep customers and can expose it to litigation and regulatory action.

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

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

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

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

STATEMENTS OF INCOME ANALYSIS

Net Interest Income

Net interest income is the interest earned on 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 non-interest-bearing liabilities, such as demand deposits, or shareholders equity.

Table 4 presents the components of net interest income, net interest margin and net interest spread for 2008, 2007 and 2006. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale securities included in other assets. Table 5 provides the relative impact of changes in the balance sheet and changes in interest rates on net interest income.

During 2008, a number of market forces impacted net interest income. The decreasing rate environment, spurred by the Federal Reserve monetary policies throughout the year, initially allowed deposits to reprice further than loans due to increased credit spreads on new originations. This effect was muted during the second half of 2008 as disruptions in the credit markets created a highly competitive deposit rate environment. Loan yields came under further downward pressure due to the increased levels of nonperforming loans and leases. Other adjustments included the accretion of discounts on acquired loans, primarily as a result of the second quarter 2008 acquisition of First Charter, which increased net interest income by $339 million during 2008. The purchase accounting accretion reflects the high discount rate in the market at the time of the acquisition; the total loan discounts are being accreted into net interest income over the remaining period to maturity of the loans acquired. During the second quarter of 2008, the Bancorp recognized a reduction of approximately $130 million to interest income on commercial leases as a result of the recalculation of cash flows on certain leveraged leases. More information on the leveraged lease adjustment can be found in Note 16 of the Notes to Consolidated Financial Statements.

Overall, net interest income (FTE) was $3.5 billion for 2008, compared to $3.0 billion earned in 2007. The increase in

net interest income compared to the prior year is the result of an 11% increase in average interest-earning assets combined with a 49 bp increase in net interest spread that was partially reduced by the increase in nonperforming loans. In 2008, $282 million in additional interest income would have been recorded if nonaccrual loans had been current compared to $144 million in 2007. Exclusive of the purchase accounting and leveraged lease adjustments, net interest income increased by $291 million, or 10%, over the prior year.

Reported net interest margin was 3.54% in 2008, compared to 3.36% in 2007. For the year, the negative effects of the leveraged lease adjustment, a reduction to net interest margin of 13 bp, and increase in nonperforming loans were offset by the positive impact from the accretion of the discounts on acquired loans, which increased net interest margin approximately 34 bp in 2008. Exclusive of the purchase accounting and leveraged lease adjustments, net interest margin was flat on a year-over-year basis as widening credit spreads were offset by higher nonaccrual loans and leases and a greater concentration in lower yielding commercial loans.

Total average interest-earning assets increased 11% from 2007. Average total commercial loans increased 19% and the investment portfolio increased 17%, while consumer loans decreased modestly. Commercial mortgage and commercial construction loans increased primarily as a result of acquisitions during the past year. Commercial and industrial loans increased due to the origination for portfolio of loans that historically were sold to the Bancorp s off-balance sheet commercial paper conduit, coupled with the use of contingent liquidity facilities related to certain off-balance sheet programs that were drawn upon in 2008. These commercial loans have the effect of lowering the overall yield on commercial loans. Increases in the investment portfolio relate to both the Bancorp s desire to keep an appropriately sized investment portfolio given the growth in loans and leases, which occurred primarily from acquisitions, coupled with the purchase of securities as part of the Bancorp s non-qualifying hedging strategy related to mortgage servicing rights.

Interest income (FTE) from loans and leases decreased $481 million compared to 2007. Exclusive of the accretion of discounts on acquired loans and the leveraged lease adjustment during the second quarter of 2008, interest income (FTE) from loans and leases decreased $694 million, or 13%, compared to the prior year. The year-over-year decrease in interest income is a result of the repricing of variable rate loans in a declining rate environment, partially offset by the increase in average loan and lease balances. At the end of 2008, the Bancorp s prime rate was 3.25% compared to 7.25% at the end of 2007. Interest income (FTE) from investment securities and short-term investments

TABLE 3: CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 ($ in millions, except per share data)	**2008**	2007	2006	2005	2004
Interest income (FTE)	**$5,630**	6,051	5,981	5,026	4,150
Interest expense	**2,094**	3,018	3,082	2,030	1,102
Net interest income (FTE)	**3,536**	3,033	2,899	2,996	3,048
Provision for loan and lease losses	**4,560**	628	343	330	268
Net interest income (loss) after provision for loan and lease losses (FTE)	**(1,024)**	2,405	2,556	2,666	2,780
Noninterest income	**2,946**	2,467	2,012	2,374	2,355
Noninterest expense	**4,564**	3,311	2,915	2,801	2,862
Income (loss) before income taxes and cumulative effect (FTE)	**(2,642)**	1,561	1,653	2,239	2,273
Fully taxable equivalent adjustment	**22**	24	26	31	36
Applicable income taxes	**(551)**	461	443	659	712
Income (loss) before cumulative effect	**(2,113)**	1,076	1,184	1,549	1,525
Cumulative effect of change in accounting principle, net of tax	**-**	-	4	-	-
Net income (loss)	**(2,113)**	1,076	1,188	1,549	1,525
Dividends on preferred stock	**67**	1	-	1	1
Net income (loss) available to common shareholders	**($2,180)**	1,075	1,188	1,548	1,524
Earnings per share, basic	**($3.94)**	2.00	2.14	2.79	2.72
Earnings per share, diluted	**(3.94)**	1.99	2.13	2.77	2.68
Cash dividends declared per common share	**0.75**	1.70	1.58	1.46	1.31

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TABLE 4: CONSOLIDATED AVERAGE BALANCE SHEETS AND ANALYSIS OF NET INTEREST INCOME (FTE)

For the years ended December 31	2008			2007			2006		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/Rate	Average Balance	Revenue/ Cost	Average Yield/Rate	Average Balance	Revenue/ Cost	Average Yield/Rate
Assets									
Interest-earning assets:									
Loans and leases *(a)*:									
Commercial loans	$28,426	$1,520	5.35%	$22,351	$1,639	7.33%	$20,504	$1,479	7.21%
Commercial mortgage	12,776	866	6.78	11,078	801	7.23	9,797	700	7.15
Commercial construction	5,846	342	5.85	5,661	421	7.44	6,015	460	7.64
Commercial leases	3,680	18	0.49	3,683	158	4.29	3,730	185	4.97
Subtotal - commercial	50,728	2,746	5.41	42,773	3,019	7.06	40,046	2,824	7.05
Residential mortgage	10,993	705	6.41	10,489	642	6.13	9,574	568	5.94
Home equity	12,269	701	5.71	11,887	897	7.54	12,070	900	7.45
Automobile loans	8,925	566	6.34	10,704	674	6.30	9,570	552	5.77
Credit card	1,708	167	9.77	1,276	133	10.39	838	99	11.84
Other consumer loans and leases	1,212	64	5.28	1,219	65	5.36	1,395	68	4.87
Subtotal - consumer	35,107	2,203	6.27	35,575	2,411	6.78	33,447	2,187	6.54
Total loans and leases	85,835	4,949	5.77	78,348	5,430	6.93	73,493	5,011	6.82
Securities:									
Taxable	13,082	643	4.91	11,131	566	5.08	20,306	904	4.45
Exempt from income taxes *(a)*	342	25	7.35	499	36	7.29	604	45	7.38
Other short-term investments	621	13	2.15	404	19	4.80	396	21	5.27
Total interest-earning assets	99,880	5,630	5.64	90,382	6,051	6.70	94,799	5,981	6.31
Cash and due from banks	2,490			2,275			2,477		
Other assets	13,411			10,613			8,713		
Allowance for loan and lease losses	(1,485)			(793)			(751)		
Total assets	$114,296			$102,477			$105,238		
Liabilities and Shareholders Equity									
Interest-bearing liabilities:									
Interest-bearing core deposits:									
Interest checking	$14,095	$126	0.89%	$14,820	$318	2.14%	$16,650	$398	2.39%
Savings	16,192	224	1.38	14,836	456	3.07	12,189	363	2.98
Money market	6,127	118	1.92	6,308	269	4.26	6,366	261	4.10
Foreign office deposits	2,153	34	1.60	1,762	73	4.15	732	29	3.93
Other time deposits	11,135	411	3.69	10,778	495	4.59	10,500	433	4.12
Total interest-bearing core deposits	49,702	913	1.84	48,504	1,611	3.32	46,437	1,484	3.20
Certificates - $100,000 and over	9,531	324	3.40	6,466	328	5.07	5,795	278	4.80
Other foreign office deposits	2,163	52	2.42	1,393	68	4.91	2,979	148	4.97
Federal funds purchased	2,975	70	2.34	3,646	184	5.04	4,148	208	5.02
Other short-term borrowings	7,785	178	2.29	3,244	140	4.32	4,522	194	4.28
Long-term debt	13,903	557	4.01	12,505	687	5.50	14,247	770	5.40
Total interest-bearing liabilities	86,059	2,094	2.43	75,758	3,018	3.98	78,128	3,082	3.94
Demand deposits	14,017			13,261			13,741		
Other liabilities	4,182			3,875			3,558		
Total liabilities	104,258			92,894			95,427		
Shareholders equity	10,038			9,583			9,811		
Total liabilities and shareholders equity	$114,296			$102,477			$105,238		
Net interest income		$3,536			$3,033			$2,899	
Net interest margin			3.54%			3.36%			3.06%
Net interest rate spread			3.21			2.72			2.37
Interest-bearing liabilities to interest-earning assets			86.16			83.82			82.41

(a) The fully taxable-equivalent adjustments included in the above table are $22 million, $24 million and $26 million for the years ended December 31, 2008, 2007 and 2006, respectively.

increased 10% compared to 2007. The increase in interest income from investment securities was a result of the 17% increase in the average investment portfolio offset by a decrease in the weighted-average yield.

Core deposits increased $2.0 billion, or three percent, compared to last year. The cost of interest-bearing core deposits was 1.84% in 2008, which was a decrease of 148 bp from 3.32% in 2007. The year-over-year decrease is a result of the decrease in short-term market interest rates as, over the past year, the federal funds target rate decreased 400 bp to a target of 0.25% at December 31, 2008 compared to 4.25% at December 31, 2007. Partially offsetting the decrease in the market rates was the highly competitive rate environment for core deposits, which was created by disruptions in the credit markets. Some relief from the highly competitive deposit pricing was experienced at the end of the fourth quarter as a number of bank consolidations were completed. The relief in competitive deposit pricing is expected to be somewhat muted in 2009, as customers began moving balances into higher yielding time deposits

during the fourth quarter of 2008. Interest expense on wholesale funding decreased 16% compared to the prior year, despite a 33% increase in average balances. Overall, the growth in average loans and leases since 2007 outpaced core deposit growth by $5.5 billion. In 2008, wholesale funding represented 42% of interest-bearing liabilities, up from 36% in 2007. The Bancorp issued $750 million of senior notes in April 2008 and $400 million of trust preferred securities in May 2008. The Bancorp s equity funding position increased approximately $500 million compared to 2007 from the issuance of $1.1 billion in preferred shares during the second quarter of 2008. Additionally, on December 31, 2008 the Bancorp sold $3.4 billion of senior preferred shares and related warrants to the U.S. Treasury under its CPP. For more information on the Bancorp s interest rate risk management, including estimated earnings sensitivity to changes in market interest rates, see the Market Risk Management section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

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TABLE 5: CHANGES IN NET INTEREST INCOME (FTE) ATTRIBUTED TO VOLUME AND YIELD/RATE *(a)*

For the years ended December 31	**2008 Compared to 2007**			2007 Compared to 2006		
($ in millions)	**Volume**	**Yield/Rate**	**Total**	Volume	Yield/Rate	Total
Assets						
Increase (decrease) in interest income:						
Loans and leases:						
Commercial loans	**$385**	**(504)**	**(119)**	$135	25	160
Commercial mortgage	**117**	**(52)**	**65**	93	8	101
Commercial construction	**13**	**(92)**	**(79)**	(27)	(12)	(39)
Commercial leases	**-**	**(140)**	**(140)**	(2)	(25)	(27)
Subtotal - commercial	**515**	**(788)**	**(273)**	199	(4)	195
Residential mortgage	**32**	**31**	**63**	56	18	74
Home equity	**28**	**(224)**	**(196)**	(14)	11	(3)
Automobile loans	**(113)**	**5**	**(108)**	68	54	122
Credit card	**42**	**(8)**	**34**	47	(13)	34
Other consumer loans and leases	**-**	**(1)**	**(1)**	(9)	6	(3)
Subtotal - consumer	**(11)**	**(197)**	**(208)**	148	76	224
Total loans and leases	**504**	**(985)**	**(481)**	347	72	419
Securities:						
Taxable	**96**	**(19)**	**77**	(452)	114	(338)
Exempt from income taxes	**(11)**	**-**	**(11)**	(8)	(1)	(9)
Other short-term investments	**8**	**(14)**	**(6)**	(1)	(1)	(2)
Total interest-earning assets	**597**	**(1,018)**	**(421)**	(114)	184	70
Cash and due from banks						
Other assets						
Allowance for loan and lease losses						
Total change in interest income	**$597**	**(1,018)**	**(421)**	$(114)	184	70
Liabilities and Shareholders Equity						
Increase (decrease) in interest expense:						
Interest-bearing core deposits:						
Interest checking	**$(15)**	**(177)**	**(192)**	$(41)	(39)	(80)
Savings	**39**	**(271)**	**(232)**	81	12	93
Money market	**(7)**	**(144)**	**(151)**	(2)	10	8
Foreign office deposits	**13**	**(52)**	**(39)**	43	1	44
Other time deposits	**16**	**(100)**	**(84)**	12	50	62
Total interest-bearing core deposits	**46**	**(744)**	**(698)**	93	34	127
Certificates - $100,000 and over	**125**	**(129)**	**(4)**	34	16	50
Other foreign office deposits	**28**	**(44)**	**(16)**	(78)	(2)	(80)
Federal funds purchased	**(29)**	**(85)**	**(114)**	(25)	1	(24)
Other short-term borrowings	**127**	**(89)**	**38**	(55)	1	(54)
Long-term debt	**71**	**(201)**	**(130)**	(97)	14	(83)
Total interest-bearing liabilities	**368**	**(1,292)**	**(924)**	(128)	64	(64)
Demand deposits						
Other liabilities						
Total change in interest expense	**368**	**(1,292)**	**(924)**	(128)	64	(64)
Shareholders equity						
Total liabilities and shareholders equity						
Total change in net interest income	**$229**	**274**	**503**	$14	120	134

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

Provision for Loan and Lease Losses

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

The provision for loan and lease losses increased to $4.6 billion in 2008 compared to $628 million in 2007. The primary factors in the increase were the increase in impaired commercial loans which are individually reviewed and reserved for, higher losses, increased estimated loss factors due to negative trends in overall delinquencies, increased loss estimates once a loan becomes delinquent related to the deterioration in real estate collateral values in certain of the Bancorp s key lending markets and declines in general economic conditions that are used

to determine an economic factor adjustment. As of December 31, 2008, the allowance for loan and lease losses as a percent of loans and leases increased to 3.31% from 1.17% at December 31, 2007.

Refer to the Credit Risk Management section for more detailed information on the provision for loan and lease losses including an analysis of the 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 year ended December 31, 2008, noninterest income increased by $479 million, or 19%, on a year-over-year basis. The components of noninterest income are shown in Table 6.

Electronic payment processing revenue increased $86 million, or 11%, in 2008 compared to the 2007 as the Bancorp continued to realize growth in each of its three main product lines. The components of electronic payment processing revenue are shown in Table 7.

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TABLE 6: NONINTEREST INCOME

For the years ended December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Electronic payment processing revenue	**$912**	826	717	622	521
Service charges on deposits	**641**	579	517	522	515
Corporate banking revenue	**444**	367	318	299	228
Investment advisory revenue	**353**	382	367	358	363
Mortgage banking net revenue	**199**	133	155	174	178
Other noninterest income	**363**	153	299	360	587
Securities gains (losses), net	**(86)**	21	(364)	39	(37)
Securities gains, net non-qualifying hedges on mortgage servicing rights	**120**	6	3	-	-
Total noninterest income	**$2,946**	2,467	2,012	2,374	2,355

Merchant processing revenue increased 11%, to $341 million, compared to 2007 as the growth in the number of merchants and transaction volumes compared to 2007 was partially offset by lower average dollar amounts per transaction due to lower consumer spending in the fourth quarter of 2008. Financial institutions revenue increased to $324 million, up seven percent, compared to 2007 due to higher transaction volumes as a result of continued success in attracting financial institution customers. Card issuer interchange increased 16%, to $247 million, compared to 2007 due to continued growth related to debit and credit card usage. The Bancorp processed approximately 28.4 billion transactions during 2008 compared to approximately 26.7 billion transactions during 2007 and handles electronic processing for over 169,000 merchant locations worldwide.

TABLE 7: COMPONENTS OF ELECTRONIC PAYMENT PROCESSING REVENUE

For the years ended December 31 ($ in millions)	**2008**	2007	2006
Merchant processing revenue	**$341**	308	255
Financial institutions revenue	**324**	305	279
Card issuer interchange	**247**	213	183
Electronic payment processing revenue	**$912**	826	717

Service charges on deposits increased to $641 million, up $62 million, or 11%, in 2008 compared to 2007. Commercial deposit revenue, net of earnings credits, increased $44 million, or 18%, compared to 2007. Gross commercial deposit revenue grew six percent, to $534 million, compared to 2007. The overall increase was primarily impacted by a decrease in earnings credits of $35 million, or 54%, on compensating balances resulting from the decline 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. Earnings credits are based on the customer s average balance in qualifying deposits multiplied by the crediting rate. Qualifying deposits include demand deposits and interest-bearing checking accounts. The Bancorp has a standard crediting rate that is adjusted as necessary based on competitive market conditions and changes in short-term interest rates. Retail deposit revenue increased five percent, to $348 million, in 2008 compared to 2007. The increase in retail service charges was attributable to higher customer activity. Deposit generation and growth in the number of customer deposit account relationships continue to be a primary focus of the Bancorp.

Corporate banking revenue increased $77 million, or 21%, in 2008 over 2007, and reflects benefits from the broadening of the Bancorp s suite of commercial products. Foreign exchange derivative income of $106 million, increased $46 million compared to 2007 due to volume increases.

Growth also occurred in fees associated with business lending and asset securitizations, which grew $13 million and $12 million, respectively, compared to 2007. The Bancorp is committed to providing a comprehensive range of financial services to large and middle-market businesses.

Investment advisory revenue decreased $29 million, or eight percent, from 2007 due to the significant decline in equity markets in 2008 as the Bancorp experienced broad-based decreases in several categories. Brokerage fee income, which includes Fifth Third Securities income, decreased 11%, or $12 million, in 2008 as investors migrated balances from stock and bond funds to money markets funds due to market volatility. Mutual fund revenue decreased 12%, to $53 million, in 2008 due to a shift to lower yielding investments and lower asset values. As of December 31, 2008, the Bancorp had approximately $179 billion in assets under care and managed $25 billion in assets for individuals, corporations and not-for-profit organizations.

Mortgage banking net revenue increased to $199 million in 2008 from $133 million in 2007. The components of mortgage banking net revenue for the year ended December 31, 2008 and 2007 are shown in Table 8.

TABLE 8: COMPONENTS OF MORTGAGE BANKING NET REVENUE

For the years ended December 31

($ in millions)	**2008**	2007	2006
Origination fees and gains on loan sales	**$260**	79	92
Servicing revenue:			
Servicing fees	**164**	145	121
Servicing rights amortization	**(107)**	(92)	(68)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**(118)**	1	10
Net servicing revenue (expense)	**(61)**	54	63
Mortgage banking net revenue	**$199**	133	155

Mortgage banking net revenue increased $66 million compared to 2007 due to higher sales margins on loans sold, higher sales volume of portfolio loans, and the impact of the adoption of SFAS No. 159 for residential mortgage loans held for sale, offset by lower net valuation adjustments. Mortgage originations decreased three percent, from $11.9 billion to $11.5 billion, in comparison to 2007 as application volumes decreased during the second half of 2008 as a result of market disruptions. Mortgage originations rebounded during the fourth quarter of 2008 as a result of the declining interest rate environment. The increase in sales margins on loans sold and sales volume of portfolio loans contributed $151 million and $13 million, respectively, to the increase in mortgage banking net revenue. The adoption of SFAS No. 159 on January 1, 2008 for residential mortgage loans held for sale also contributed approximately $65 million to the increase in mortgage banking net revenue. Prior to adoption, mortgage loan origination costs were capitalized as part of the carrying amount of the loan and recognized as a reduction of mortgage banking net revenue upon the sale of the loans. Subsequent to the adoption, mortgage loan origination costs are recognized as expense when incurred and included in noninterest expense within the Consolidated Statements of Income.

Mortgage net servicing revenue decreased $115 million compared to 2007. 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

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adjustments on both settled and outstanding free-standing derivative financial instruments. Temporary impairment on servicing rights, partially offset by gains on derivatives economically hedging the mortgage servicing rights (MSRs), resulted in lower mortgage net servicing revenue compared to 2007. The Bancorp s total residential mortgage loans serviced at December 31, 2008 and 2007 was $50.7 billion and $45.9 billion, respectively, with $40.4 billion and $34.5 billion, respectively, of residential mortgage loans serviced for others.

Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing rates. Temporary impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. Further detail on the valuation of mortgage servicing rights can be found in Note 10 of the Notes to Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in impairment on the MSR portfolio. The Bancorp recognized a gain from MSR derivatives of $89 million, offset by a temporary impairment of $207 million, resulting in a net loss of $118 million for the year ended December 31, 2008 related to changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio. For the year ended December 31, 2007, the Bancorp recognized a gain from MSR derivatives of $23 million, offset by a temporary impairment of $22 million, resulting in a net gain of $1 million. See Note 10 of the Notes to 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. A gain on non-qualifying hedges on mortgage servicing rights of $120 million and $6 million in 2008 and 2007, respectively, was included in noninterest income within the Consolidated Statements of Income, but are shown separate from mortgage banking net revenue.

Other noninterest income increased $210 million in 2008 compared to 2007. The components of other noninterest income are shown in Table 9. The increase was primarily due to a $273 million gain from the redemption of a portion of the Bancorp s ownership interest in Visa, Inc. and a $76 million gain related to the satisfactory resolution of the CitFed litigation. This increase was offset by higher losses from the sale of both other real estate owned properties and loans in addition to higher charges in 2008 to lower the current cash surrender value of one of the Bancorp s BOLI policies. Charges related to one of the Bancorp s BOLI policies were $215 million and $177 million, respectively, for the years ended December 31, 2008 and December 31, 2007.

Net securities losses totaled $86 million in 2008 compared to $21 million of net securities gains during 2007. The net securities losses in 2008 include OTTI charges of $38 million and $29 million relating to FHLMC and FNMA preferred stock, respectively, along with OTTI charges of $37 million related to certain bank trust preferred securities. The FHLMC and FNMA preferred stock, combined, are carried at approximately $1 million at December 31, 2008 with a par value of $68 million. The bank trust preferred securities with OTTI charges had a carrying value of $79 million with a par value of $116 million at December 31, 2008.

TABLE 9: COMPONENTS OF OTHER NONINTEREST INCOME

For the years ended December 31

($ in millions)	**2008**	2007	2006
Gain on redemption of Visa, Inc. ownership interests	**$273**	-	-
CitFed litigation settlement	**76**	-	-
Cardholder fees	**58**	56	49
Consumer loan and lease fees	**51**	46	47
Operating lease income	**47**	32	26
Insurance income	**36**	32	28
Banking center income	**31**	29	22
(Loss) gain on loan sales	**(11)**	25	17
Loss on sale of other real estate owned	**(60)**	(14)	(8)
Bank owned life insurance (loss) income	**(156)**	(106)	86
Other	**18**	53	32
Total other noninterest income	**$363**	153	299

Noninterest Expense

Total noninterest expense increased $1.3 billion, or 38%, in 2008 compared to 2007. The components of noninterest expense are shown in Table 10. Noninterest expense in 2008 included a $965 million charge to record goodwill impairment, $99 million in net reductions to noninterest expense to reflect the recognition of the Bancorp s proportional share of the Visa escrow account, partially offset by additional charges for probable future Visa litigation settlements, $65 million in mortgage origination costs from the adoption of SFAS No. 159, $36 million in legal expenses related to the CitFed litigation and $20 million in acquisition related expenses. Noninterest expense in 2007 included charges of $172 million related to the indemnification of estimated current and future Visa litigation settlements and $8 million in acquisition related costs. Excluding these items, noninterest expense increased $444 million, or 14%, due to increased volume-related processing expenses, higher FDIC insurance, increases in the credit component of fair value marks on counterparty derivatives, increased provision for unfunded commitments and higher loan processing costs. For more information pertaining to the goodwill impairment charge, see Note 8 of the Notes to Consolidated Financial Statements.

Total personnel costs (salaries, wages and incentives plus employee benefits) increased 6% in 2008 compared to 2007 due primarily to approximately $65 million in mortgage origination costs that prior to the adoption of SFAS No. 159 on January 1, 2008, were included as a component of mortgage banking net revenue. Total personnel expense in 2008 and 2007 included $9 million and $7 million, respectively, in severance related costs. Excluding these items, personnel expense increased two percent compared to 2007. As of December 31, 2008, the Bancorp employed 22,423 employees, of which 6,678 were officers and 2,578 were part-time employees. Full-time equivalent employees totaled 21,476 as of December 31, 2008 compared to 21,683 as of December 31, 2007.

TABLE 10: NONINTEREST EXPENSE

For the years ended December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Salaries, wages and incentives	**$1,337**	1,239	1,174	1,133	1,018
Employee benefits	**278**	278	292	283	261
Net occupancy expense	**300**	269	245	221	185
Payment processing expense	**274**	244	184	145	114
Technology and communications	**191**	169	141	142	120
Equipment expense	**130**	123	116	105	84
Goodwill impairment	**965**	-	-	-	-
Other noninterest expense	**1,089**	989	763	772	1,081
Total noninterest expense	**$4,564**	3,311	2,915	2,801	2,863
Efficiency ratio	**70.4%**	60.2	59.4	52.1	53.0

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Net occupancy expenses increased $31 million, or 11%, in 2008 compared to 2007 due to the addition of 80 new banking centers. Growth in the number of banking centers was primarily driven by acquisitions, which added 69 banking centers since 2007.

Payment processing expense, which includes third-party processing expenses, card management fees and other bankcard processing, increased 12% in 2008 compared to 2007 due to higher network charges of $24 million from increased processing volumes for both the merchant and financial institutions businesses.

Total other noninterest expense increased by $100 million, or 10%, in 2008 compared to 2007. The components of other noninterest expense are shown in Table 11. Loan processing expense was higher in comparison to 2007 as a result of increased collection activities. Increased professional service fees compared to 2007 resulted from legal expenses of $36 million stemming from the CitFed litigation. FDIC insurance and other taxes were higher due to the depletion of the Bancorp s prior FDIC insurance premium credits in 2008. The provision for unfunded commitments increased $82 million compared to 2007 due to higher estimates of inherent losses resulting from deterioration in the credit quality of the underlying borrowers. The credit component of fair value marks on counterparty derivatives increased due to deterioration in the credit quality of the Bancorp s customers.

In December 2008, the FDIC approved a final rule on deposit assessment rates for the first quarter of 2009. The rule raised assessment rates uniformly by 7 bp (annually) for the first quarter of 2009 only. The FDIC issued another final rule during the first quarter of 2009 changing the way the FDIC s assessment system differentiates for risk, makes corresponding changes to assessment rates beginning with the second quarter of 2009, and makes certain technical and other changes to the assessment rules. In addition, the FDIC issued an interim rule that provides for a 20 bp special assessment on June 30, 2009. The increase in assessment rates effective January 1, 2009 will approximately double the Bancorp s expected assessment for 2009 s first quarter. The Bancorp believes the assessment rates subsequent to the first quarter 2009 will be significantly higher than the first quarter of 2009. As a result, the Bancorp expects that increased FDIC insurance expense in 2009 will have an adverse impact on its results of operations.

In addition to the standard deposit insurance assessments, as noted above, in the third quarter of 2008, the FDIC announced the Temporary Liquidity Guarantee Program (TLGP), which temporarily guarantees the senior debt of participating FDIC- insured institutions and certain holding companies, as well as deposits in noninterest-bearing deposit transaction accounts.

The Bancorp expects assessments related to the TLGP to have an adverse impact on its results of operations.

TABLE 11: COMPONENTS OF OTHER NONINTEREST EXPENSE
For the years ended December 31

($ in millions)	**2008**	2007	2006
Loan processing	**$188**	119	93
Marketing	**102**	84	78
Professional services fees	**102**	54	41
Provision for unfunded commitments and letters of credit	**98**	16	5
FDIC insurance and other taxes	**73**	31	39
Affordable housing investments	**67**	57	42
Intangible asset amortization	**56**	42	45
Travel	**54**	54	52
Postal and courier	**54**	52	49
Recruitment and education	**33**	41	51
Operating lease	**32**	22	18
Supplies	**31**	31	28
Visa litigation (accrual) settlement	**(99)**	172	-
Debt termination	**-**	-	49
Other	**298**	214	173
Total other noninterest expense	**$1,089**	989	763

The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 70.4% and 60.2% for 2008 and 2007, respectively. Excluding the goodwill impairment charge of $965 million in 2008, the efficiency ratio was 55.5% (comparison being provided to supplement an understanding of fundamental trends). The Bancorp continues to focus on efficiency initiatives, as part of its core emphasis on operating leverage and on expense control.

Applicable Income Taxes

The Bancorp s income (loss) before income taxes, applicable income tax expense and effective tax rate for each of the periods indicated are shown in Table 12. Applicable income tax expense for all periods includes the benefit from tax-exempt income, tax-advantaged investments and general business tax credits, partially offset by the effect of nondeductible expenses. The effective tax rate for the year ended December 31, 2008 was primarily impacted by the pre-tax loss in 2008, partially offset by tax expense of approximately $140 million in the second quarter of 2008 required for interest related to the tax treatment of certain of the Bancorp s leveraged leases for previous tax years and the nondeductible portion of the charge of $965 million to record impairment of goodwill.

TABLE 12: APPLICABLE INCOME TAXES

For the years ended December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Income (loss) before income taxes and cumulative effect	**$(2,664)**	1,537	1,627	2,208	2,237
Applicable income tax expense (benefit)	**(551)**	461	443	659	712
Effective tax rate	**(20.7)%**	30.0	27.2	29.9	31.8

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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 28 of the Notes to Consolidated Financial Statements.

Results of the Bancorp s business segments are presented based on its management structure and management accounting practices. The structure and accounting practices are specific to the Bancorp; therefore, the financial results of the Bancorp s business segments are not necessarily comparable with similar information for other financial institutions. The Bancorp refines its methodologies from time to time as management 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 London Interbank Offered Rate (LIBOR) swap curve. Matching duration allocates interest income and interest expense to each segment so its resulting net interest income is insulated from interest rate risk. In a rising rate environment, the Bancorp benefits from the widening spread between deposit costs and wholesale funding costs. However, the Bancorp s FTP system credits this benefit to deposit-providing businesses, such as Branch Banking and Investment Advisors, on a duration-adjusted basis. The net impact of the FTP methodology is captured in General Corporate and Other.

The business segments are charged provision expense based on the actual net charge-offs experienced by the loans owned by each segment. Provision expense attributable to loan growth and changes in factors in the allowance for loan and lease losses are captured in General Corporate and Other. The financial results of the business segments include allocations for shared services and headquarters expenses. Even with these allocations, the financial results are not necessarily indicative of the business segments financial condition and results of operations as if they were to exist as independent entities. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations by accessing the capital markets as a collective unit. Net income (loss) available to common shareholders by business segment is summarized in Table 13.

TABLE 13: BUSINESS SEGMENT NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS

For the years ended December 31 ($ in millions)	**2008**	2007	2006
Income Statement Data			
Commercial Banking	**$(697)**	698	693
Branch Banking	**568**	620	563
Consumer Lending	**(108)**	130	180
Processing Solutions	**182**	163	139
Investment Advisors	**93**	99	90
General Corporate and Other	**(2,151)**	(634)	(477)
Net income (loss)	**(2,113)**	1,076	1,188
Dividends on preferred stock	**67**	1	-
Net income (loss) available to common shareholders	$(2,180)	1,075	1,188

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. Table 14 contains selected financial data for the Commercial Banking segment.

TABLE 14: COMMERCIAL BANKING
For the years ended December 31

($ in millions)	**2008**	2007	2006
Income Statement Data			
Net interest income (FTE) *(a)*	**$1,645**	1,311	1,318
Provision for loan and lease losses	**1,864**	127	99
Noninterest income:			
Electronic payment processing	**(2)**	(6)	(5)
Service charges on deposits	**186**	154	146
Corporate banking revenue	**414**	341	292
Investment advisory revenue	**5**	3	3
Mortgage banking net revenue	**-**	-	-
Other noninterest income	**52**	66	40
Securities gains (losses), net	**-**	-	-
Noninterest expense:			
Salaries, incentives and benefits	**299**	264	245
Net occupancy expense	**17**	15	14
Payment processing expense	**1**	-	-
Technology and communications	**(2)**	4	-
Equipment expense	**4**	3	2
Goodwill impairment	**750**	-	-
Other noninterest expense	**599**	514	467
Income (loss) before taxes	**(1,232)**	942	967
Applicable income tax expense (benefit)	**(535)**	244	274
Net income (loss)	**$(697)**	698	693
Average Balance Sheet Data			
Commercial loans	**$43,213**	35,666	32,714
Demand deposits	**6,208**	5,930	6,300
Interest checking	**4,536**	4,107	3,875
Savings and money market	**4,047**	4,461	5,053
Certificates $100,000 and over & other time	**2,293**	1,855	1,774
Foreign office deposits	**1,932**	1,486	515

(a) Includes taxable equivalent adjustments of $15 million for 2008, $14 million for 2007 and $13 million for 2006.

Comparison of 2008 with 2007

Commercial Banking incurred a net loss of $697 million compared to net income of $698 million in 2007 as solid growth in net interest income and corporate banking revenue was more than offset by increased provision for loan and lease losses and impairment to goodwill. The impairment charge of $750 million was taken in the fourth quarter of 2008 due to the decline in the estimated fair value of the Commercial Banking segment below its carrying value and the determination that the implied fair value of the goodwill was less than its carrying value. Net interest income increased $334 million, or 25%, compared to the same period last year. The accretion of purchase accounting adjustments, totaling $204 million, primarily related to the second quarter acquisition of First Charter drove the increase in net interest income with the remainder attributed to the growth in loans, partially funded by an increase in deposits. Average commercial loans and leases increased 21%, to $43.1 billion, over 2007 due to increased loan production within the Bancorp s footprint during 2008, acquisitions since 2007, and the purchase of assets from an unconsolidated Qualified Special Purpose Entity (QSPE) under a liquidity asset purchase agreement with the Bancorp. See Note 10 of the Notes to Consolidated Financial Statements for further information on the unconsolidated QSPE. Excluding the impact of $1.0 billion from acquisitions and $243 million from the use of contingent liquidity facilities, average commercial loans increased approximately 17% compared to 2007. Average core deposits increased four percent due to growth in interest checking and foreign office deposits.

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Net charge-offs as a percent of average loans and leases increased to 436 bp from 36 bp in 2007. Net charge-offs increased in comparison to 2007 due to weakening economies and the continuing deterioration of credit within the Bancorp s footprint, particularly in Michigan and Florida, involving commercial loans and commercial mortgage loans. Additionally, in the fourth quarter of 2008, the Bancorp sold or transferred to held-for-sale $1.3 billion in commercial loans and commercial mortgage loans, resulting in $800 million in charge-offs on those loans, or 185 bp.

Noninterest income increased $97 million compared to 2007 due to corporate banking revenue growth of $73 million and increased service charges on deposits of $32 million, both up 21%. Corporate banking revenue increased as a result of growth in foreign exchange derivative income, which increased $38 million, to $90 million, during 2008 and in business lending fees, which increased $16 million, or 26%, compared to 2007. The increase in service charges on deposits was a result of higher volume-related business service charges (net of discounts) and a reduction in the amount of offsetting earnings credits as short-term rates were lower in 2008 than 2007.

Noninterest expense increased $868 million compared to 2007 primarily due to goodwill impairment of $750 million in 2008. The impairment charge was taken in the fourth quarter of 2008 due to the decline in the estimated fair value of the Commercial Banking segment below its carrying value and the determination that the implied fair value of the goodwill was less than its carrying value. Also contributing to the growth in noninterest expense was sales incentives, which increased 22% to $106 million compared to 2007 as a result of increased revenues, especially foreign exchange derivative income. Additionally, other noninterest expense increased due to growth in loan expenses of $33 million, to $65 million, during 2008 from increased collection activities.

Comparison of 2007 with 2006

Net income increased $5 million compared to 2006 as a result of continued success in the sale of corporate banking services, offset by a higher provision for loan and lease losses and growth in noninterest expense.

Net interest income was modestly lower in comparison to 2006 due to a 32 bp decline in the spread between loan yields and the related FTP charge. Average loans and leases increased nine percent over 2006, to $35.7 billion, with growth concentrated in C&I loans and commercial mortgage loans. The increase in commercial mortgage loans can be attributed to loans acquired from R-G Crown Bank (Crown) in November 2007 and to the conversion of construction loans to permanent financing throughout 2007. Average core deposits increased modestly to $15.9 billion in 2007 compared to 2006. Net charge-offs as a percent of average loans increased from 31 bp in 2006 to 36 bp in 2007 as the segment experienced an increase in charge-offs of commercial mortgage loans in parts of its footprint, specifically eastern Michigan and northeastern Ohio.

Noninterest income increased $82 million, or 17%, compared to 2006 largely due to an increase in corporate banking revenue of $49 million, or 17%. Increases in corporate banking revenue occurred in all subcaptions as a result of a build-out of its commercial product offerings by the Commercial Banking segment.

Noninterest expense increased $72 million, or 10%, in 2007 compared to 2006 primarily due to higher sales related incentives expense and a volume-related increase in affordable housing investments expense.

Branch Banking

Branch Banking provides a full range of deposit and loan and lease products to individuals and small businesses through 1,307 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. Table 15 contains selected financial data for the Branch Banking segment.

TABLE 15: BRANCH BANKING

For the years ended December 31	**2008**	2007	2006

($ in millions)			
Net interest income	**$1,662**	1,464	1,300
Provision for loan and lease losses	**352**	162	108
Noninterest income:			
Electronic payment processing	**189**	174	159
Service charges on deposits	**447**	421	365
Corporate banking revenue	**12**	13	15
Investment advisory revenue	**84**	90	87
Mortgage banking net revenue	**13**	7	5
Other noninterest income	**67**	73	80
Securities gains (losses), net	**-**	-	-
Noninterest expense:			
Salaries, incentives and benefits	**517**	479	455
Net occupancy expense	**159**	136	121
Payment processing expense	**6**	6	15
Technology and communications	**16**	14	13
Equipment expense	**44**	37	32
Goodwill impairment	**-**	-	-
Other noninterest expense	**503**	450	398
Income before taxes	**877**	958	869
Applicable income tax expense	**309**	338	306
Net income	**$568**	620	563
Average Balance Sheet Data			
Consumer loans	**$12,665**	11,838	11,461
Commercial loans	**5,596**	5,169	5,289
Demand deposits	**6,006**	5,756	5,839
Interest checking	**7,845**	8,692	10,578
Certificates $100,000 and over & other time	**13,749**	13,729	13,031
Savings and money market	**16,184**	14,623	11,886

Comparison of 2008 with 2007

Net income decreased $52 million, or eight percent, compared to 2007 as increases in net interest income and service fees were more than offset by a higher provision for loan and lease losses and increased salaries & incentives and net occupancy expense. Net interest income increased 14% compared to 2007 due to the increase in volume of higher yielding credit cards coupled with the FTP impact for increases in deposit balances. Also impacting net interest income was the accretion of purchase accounting adjustments, totaling $43 million, primarily related to the second quarter acquisition of First Charter. Average loans and leases increased seven percent compared to 2007 as home equity loans grew five percent due to acquisitions since 2007. The segment grew credit card balances by $396 million, or 36%, resulting from an increased focus on relationships with its current customers through the cross-selling of credit cards. Average core deposits were up three percent compared to 2007 primarily due to acquisitions since 2007.

Net charge-offs as a percent of average loan and leases increased in 2008 to 194 bp from 95 bp in 2007. Net charge-offs increased in comparison to 2007 as the segment experienced higher charge-offs involving brokered home equity lines and loans, commercial loans and credit cards. The increase of $63 million in charge-offs on home equity reflected borrower stress and a decrease in home prices primarily within the Bancorp s footprint. Commercial loan charge-offs increased $41 million compared to 2007 due to the weakening economy and the

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continuing deterioration of commercial credit, particularly in Michigan and Florida. Charge-offs involving credit cards increased $44 million compared to 2007 due to higher card balances and the resulting increase in losses upon the maturation of the portfolio.

Noninterest income increased $34 million, or four percent, compared to 2007 primarily due to an increase in service charges on deposits of $26 million, or six percent. The increase in deposit fees, including consumer overdraft fees, is attributed to higher customer activity in comparison to 2007.

Noninterest expense increased $123 million, or 11%, compared to 2007 as salaries and incentives increased eight percent due to higher incentives paid from increased revenues in 2008. Additionally, net occupancy and equipment costs increased 17% as a result of additional banking centers. Since 2007, the Bancorp s banking centers have increased by 80 to 1,307 as of December 31, 2008, mainly due to acquisitions, which contributed 69 banking centers. Other noninterest expense increased 12%, which can be attributed to higher loan cost associated with collections.

Comparison of 2007 with 2006

Net income increased $57 million, or 10%, compared to 2006 as the segment benefited from increased interest rates through the majority of 2007 and increased service charges on deposits. Net interest income increased $164 million as increases in total deposits were partially offset by a deposit mix shift toward higher paying deposit account types. Average core deposits increased three percent, to $39.9 billion, compared to 2006. Average loans and leases increased two percent to $17.0 billion, led by growth in credit card balances of 56%.

The provision for loan and lease losses increased $54 million over 2006 due to the deteriorating credit environment involving home equity loans, particularly in Michigan and Florida. Net charge-offs as a percent of average loans and leases increased significantly from 64 bp to 95 bp, with much of the increase occurring in the fourth quarter of 2007. The Bancorp experienced growth in charge-offs on home equity lines and loans with high loan-to-value (LTV) ratios, reflecting borrower stress and lower home prices.

Noninterest income increased nine percent from 2006 as service charges on deposits grew 15% compared to the prior year due to growth in consumer deposit fees driven by new account openings and higher levels of customer activity.

Noninterest expense increased eight percent compared to 2006. Net occupancy and equipment expenses increased 13% compared to 2006 as a result of the continued opening of new banking centers.

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. Table

16 contains selected financial data for the Consumer Lending segment.

TABLE 16: CONSUMER LENDING
For the years ended December 31

($ in millions)	**2008**	2007	2006
Income Statement Data			
Net interest income	**$497**	404	409
Provision for loan and lease losses	**425**	149	94
Noninterest income:			
Electronic payment processing	**-**	-	-
Service charges on deposits	**-**	-	-
Corporate banking revenue	**-**	-	-
Investment advisory revenue	**-**	-	-

Mortgage banking net revenue	**184**	122	148
Other noninterest income	**38**	69	76
Securities gains (losses), net	**124**	6	3
Noninterest expense:			
Salaries, incentives and benefits	**134**	74	87
Net occupancy expense	**8**	8	7
Payment processing expense	**-**	-	-
Technology and communications	**2**	2	2
Equipment expense	**1**	1	1
Goodwill impairment	**215**	-	-
Other noninterest expense	**224**	167	167
Income (loss) before taxes	**(166)**	200	278
Applicable income tax expense (benefit)	**(58)**	70	98
Net income (loss)	**$(108)**	130	180
Average Balance Sheet Data			
Residential mortgage loans	**$10,699**	10,156	9,523
Home equity	**1,143**	1,328	1,311
Automobile loans	**7,989**	9,712	8,560
Consumer leases	**797**	917	1,328

Comparison of 2008 with 2007

Consumer Lending incurred a net loss of $108 million compared to net income of $130 million in 2007 as the increases in net interest income and mortgage banking net revenue and securities gains were more than offset by growth in provision for loan and lease losses and goodwill impairment. The impairment charge of $215 million was taken in the fourth quarter of 2008 due to the decline in the estimated fair value of the Consumer Lending segment below its carrying value and the determination that the implied fair value of the goodwill was less than its carrying value. The growth in net interest income compared to 2007 was primarily driven by a rebound in mortgage rate spreads, partially offset by the decrease in interest-earning assets. Net interest income was also impacted by the accretion of purchase accounting adjustments, totaling $60 million, primarily related to the second quarter acquisition of First Charter. Average residential mortgage loans increased six percent compared to 2007 due to acquisitions, including Crown in the fourth quarter of 2007 and First Charter in the second quarter of 2008. Average automobile loans decreased 18% compared to 2007 due to securitizations totaling $2.7 billion in 2008. Net charge-offs as a percent of average loan and leases increased from 73 bp in 2007 to 221 bp in 2008. Net charge-offs, primarily in residential mortgage loans, increased in comparison to 2007 due to the weakening economy and continuing deterioration of real estate values within the Bancorp s footprint, particularly in Michigan and Florida. The segment continues to focus on managing credit risk through the restructuring of certain residential mortgage and home equity

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loans in addition to careful consideration of underwriting and collection standards. As of December 31, 2008, the Bancorp had restructured approximately $462 million and $248 million of residential mortgage loans and home equity loans, respectively, to mitigate losses due to declining collateral values.

Mortgage originations decreased to $11.2 billion in 2008 from $11.4 billion in 2007 due to lower application volumes in the second half of 2008 resulting from market disruptions. The increase in sales margins on loans held for sale and sales volume of portfolio loans were the primary reasons for increased mortgage banking net revenue compared to 2007. Also contributing to the increase in mortgage banking net revenue in 2008 was the $65 million impact from the adoption of SFAS No. 159, as of January 1, 2008, on residential mortgage loans held for sale. Prior to adoption, mortgage loan origination costs were capitalized as part of the carrying amount of the loan and recognized as a reduction of mortgage banking net revenue upon the sale of the loans. Subsequent to the adoption, mortgage loan origination costs are recognized in earnings when incurred, which primarily drove the increase in salaries and incentives in comparison to 2007. The increase in other noninterest expense compared to 2007 can be attributed to higher loan processing costs from increased collection activities.

Comparison of 2007 with 2006

Net income decreased $50 million, or 28%, compared to 2006 despite increased originations, due to an increase in provision for loan and lease losses and decreased gain on sale margins. Average residential mortgage loans increased seven percent compared to 2006 due to increased mortgage originations and loans acquired from Crown. Net charge-offs increased to 73 bp in 2007, an increase from 47 bp in 2006, due to greater severity of loss on residential mortgages and automobile loans related to declining real estate prices and a market surplus of used automobiles, respectively.

Noninterest income decreased 14% compared to 2006 due to a decline in mortgage banking net revenue. The Bancorp s mortgage originations were $11.4 billion and $9.4 billion in 2007 and 2006, respectively. Despite the increase in originations, gain on sale margins decreased due to widening credit spreads in the residential mortgage market, resulting in a decrease in mortgage banking net revenue of $26 million, or 18%.

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. Table 17 contains selected financial data for the Processing Solutions segment.

TABLE 17: PROCESSING SOLUTIONS
For the years ended December 31

($ in millions)	**2008**	2007	2006
Net interest income	**$7**	(6)	(3)
Provision for loan and lease losses	**16**	11	9
Noninterest income:			
Electronic payment processing	**796**	700	601
Service charges on deposits	**1**	(1)	(1)
Corporate banking revenue	**-**	3	1
Investment advisory revenue	**-**	-	-
Mortgage banking net revenue	**-**	-	-
Other noninterest income	**46**	41	35
Securities gains (losses), net	**-**	-	(1)
Noninterest expense:			
Salaries, incentives and benefits	**80**	75	70
Net occupancy expense	**4**	4	3
Payment processing expense	**265**	237	169
Technology and communications	**42**	31	32
Equipment expense	**2**	4	4
Goodwill impairment	**-**	-	-
Other noninterest expense	**161**	123	130
Income before taxes	**280**	252	215

Applicable income tax expense	**98**	89	76
Net income	**$182**	163	139

Comparison of 2008 with 2007

Net income increased $19 million, or 12%, compared to 2007 as the segment continues to increase its presence in the electronic payment processing business. The segment continues to realize year-over-year growth in transaction volumes and revenue growth, despite the negative effect of the slowdown in consumer spending, due to the addition and conversion of large national clients over the past year and current initiatives involving merchant pricing and sales. Financial institutions processing revenues increased $50 million, or 16%, driven by higher transaction volumes. Merchant processing revenue increased $29 million, or nine percent, over 2007 as growth in the number of merchants and overall transaction volume was partially offset by lower average dollar amounts per transaction. Growth in card issuer interchange of $17 million, or 25%, can be attributed to organic growth in the Bancorp s credit card portfolio.

Payment processing expense increased $28 million, or 12%, from 2007 due to higher network charges of $189 million, an increase of $23 million, or 14% from 2007. The increase in network charges is a result of increased transaction volumes as financial institution transactions and merchant transactions processed both increased in comparison to 2007. Noninterest expense also increased due to higher volume-related technology and communications expense.

Comparison of 2007 with 2006

Net income increased $24 million, or 17%, versus the prior year as electronic payment processing revenues continued to produce double-digit increases. Merchant processing increased $55 million due to the addition and conversion of large national clients throughout 2007. Card issuer interchange revenues increased primarily due to new customer additions and the resulting higher card sales volumes from the success in the Bancorp s initiative to increase credit card penetration of its customer base.

The strong increase in noninterest income was mitigated by a 19% increase in noninterest expense due to network charges resulting from increased transaction volume in addition to expenses related to the conversion of large merchant contracts.

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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. Table 18 contains selected financial data for the Investment Advisors segment.

TABLE 18: INVESTMENT ADVISORS
For the years ended December 31

($ in millions)	**2008**	2007	2006
Income Statement Data			
Net interest income	**$183**	153	138
Provision for loan and lease losses	**49**	12	4
Noninterest income:			
Electronic payment processing	**2**	1	1
Service charges on deposits	**9**	7	7
Corporate banking revenue	**18**	10	7
Investment advisory revenue	**354**	386	367
Mortgage banking net revenue	**1**	2	2
Other noninterest income	**2**	1	2
Securities gains (losses), net	**-**	-	-
Noninterest expense:			
Salaries, incentives and benefits	**159**	167	172
Net occupancy expense	**10**	10	10
Payment processing expense	**-**	-	-
Technology and communications	**2**	2	2
Equipment expense	**1**	1	1
Goodwill impairment	**-**	-	-
Other noninterest expense	**204**	215	196
Income before taxes	**144**	153	139
Applicable income tax expense	**51**	54	49
Net income	**$93**	99	90
Average Balance Sheet Data			
Loans	**$3,527**	3,206	3,067
Core deposits	**4,666**	4,959	4,651

Comparison of 2008 with 2007

Net income decreased $6 million, or six percent, compared to 2007 as higher net interest income and decreased operating expenses were more than offset by a higher provision for loan and lease losses and lower investment advisory income. The segment grew loans by 10% and benefited from an overall decrease in interest rates to increase net interest income $30 million, or 20%, as spreads widened due to decreases in funding costs. Average core deposits declined six percent compared to 2007. The decrease in core deposits was primarily due to a 16% decline in interest checking balances.

Noninterest income decreased $22 million, or five percent, compared to 2007, as investment advisory income decreased eight percent, to $354 million. Included in the decrease of investment advisory income was a decline in broker income of $11 million, or nine percent, driven by clients moving to lower fee, cash based products from equity products due to extreme market volatility and a decline in transaction based revenues. Additionally, institutional trust revenue within investment advisory income decreased $7 million, or eight percent, due to overall lower asset values. Noninterest expense decreased $19 million, or five percent, compared to 2007 as the segment continued to focus on expense control by reducing personnel and canceling certain projects.

Comparison of 2007 with 2006

Net income increased $9 million, or 10%, compared to 2006 on increases in investment advisory revenue of five percent. Net interest income increased 11% to $153 million on a five percent increase in average loans and leases and a seven percent increase in core deposits. Overall, noninterest income increased six percent from 2006. Fifth Third Private Bank, the Bancorp s wealth management group, increased revenues by six percent on execution of cross-sell initiatives. Brokerage income also increased seven percent compared to 2006 as the overall equity markets performed well for much of 2007 and the segment increased the number of registered representatives. The segment realized only modest gains in institutional services income. Noninterest expenses remained contained, increasing four percent compared to 2006.

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.

Comparison of 2008 with 2007

The results of General Corporate and Other were primarily impacted by the significant increase in the provision expense in excess of net charge-offs, which increased from $167 million in 2007 to $1.9 billion in 2008. The results in 2008 also included $273 million in income related to the redemption of a portion of Fifth Third s ownership interests in Visa, $99 million in net reductions to noninterest expense to reflect the reversal of a portion of the litigation reserve related to the Bancorp s indemnification of Visa, $229 million after-tax impact of charges relating to certain leveraged leases, charges related to a reduction in the current cash surrender value of one of the Bancorp s BOLI policies totaling $215 million, OTTI charges totaling $104 million from FNMA and FHLMC preferred stock and certain bank trust preferred securities, and a net benefit of $40 million from the resolution of the CitFed litigation. The results in 2007 included a charge of $177 million related to a reduction in the current cash surrender value of one of the Bancorp s BOLI policies and charges totaling $172 million related to the Visa settlement with American Express.

Comparison of 2007 with 2006

Results were primarily impacted by a charge of $177 million to reduce the cash surrender value of one of the Bancorp s BOLI policies, charges totaling $172 million related to the Visa settlement with American Express, and the increase in provision expense in excess of net charge-offs compared to the prior year. Provision expense over charge-offs increased by approximately $139 million compared to 2006 as the allowance for loan and lease losses as a percentage of loan and leases increased from 1.04% as of December 31, 2006 to 1.17% as of December 31, 2007. The increase is attributable to a number of factors including an increase in delinquencies, the severity of loss due to real estate price deterioration and automobile loans and credit card balances.

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FOURTH QUARTER REVIEW

The Bancorp s 2008 fourth quarter net loss was $2.2 billion, or $3.82 per diluted share, compared to a net loss of $81 million, or $0.14 per diluted share, for the third quarter of 2008 and net income of $16 million, or $0.03 per diluted share, for the fourth quarter of 2007. Fourth quarter 2008 earnings were negatively impacted by a number of charges including: a $965 million charge to record impairment on goodwill, $40 million in OTTI charges on securities, a $34 million charge to lower the current cash surrender value of one of the Bancorp s BOLI policies and provision expense of $2.4 billion. Provision expense included the effect of actions taken to address areas of the loan portfolio exhibiting the most significant credit deterioration as the Bancorp sold or transferred to held-for-sale loans with a carrying value of approximately $1.3 billion. Approximately 90% of these loans were commercial real estate secured loans in Florida and Michigan. Overall, net charge-offs on loans sold or transferred to held-for-sale during the fourth quarter totaled $800 million. Additionally, provision expense was impacted by a significant increase in the reserve for loan and lease losses to $2.8 billion, resulting in an allowance to loan and lease ratio of 3.31% as of December 31, 2008, compared to 2.41% as of September 30, 2008 and 1.17% as of December 31, 2007. Fourth quarter 2007 earnings were negatively impacted by a charge of $177 million to lower the current cash surrender value of one of the Bancorp s BOLI policies and a charge of $94 million related to Visa members indemnification of future litigation settlements.

Fourth quarter 2008 net interest income (FTE) of $897 million decreased $171 million from the third quarter of 2008 and increased $112 million from the same period a year ago. Third and fourth quarter net interest income was affected by the loan discount accretion related to the second quarter of 2008 acquisition of First Charter. Excluding the benefit of the loan discount accretion of $81 million in the fourth quarter and $215 million in the third quarter, net interest income declined $37 million, or four percent, from the third quarter of 2008 and increased $31 million, or four percent, from the fourth quarter of 2007. The sequential decline was driven by a number of factors which included the effect of higher nonperforming loan balances, a change in the mix of deposits to higher priced savings and time deposits as a result of the highly competitive pricing environment and the effect of a greater concentration in lower yielding commercial loans. The year-over-year increase in net interest income was due to the nine percent growth in interest-earning assets, partially offset by margin compression due to the factors above.

Noninterest income of $642 million decreased by $75 million compared to the third quarter of 2008 and increased $133 million compared to the fourth quarter of 2007. Fourth quarter 2008 results included a $34 million charge to reduce the cash surrender value of one of the Bancorp s BOLI policies, compared to a charge of $27 million in the third quarter of 2008 and a $177 million charge in the fourth quarter of 2007. Third quarter results were also impacted by a $76 million gain related to a satisfactory resolution of the CitFed litigation. Excluding the above items and non-mortgage related securities gains/losses, noninterest income decreased $15 million, or two percent, compared to the sequential quarter and increased $38 million, or six percent, compared to the same quarter a year ago. The sequential decrease is a result of lower consumer activity levels, including average credit and debit card transaction and consumer deposit activity, while the year-over-year increase is a result of the growth in customers, particularly in commercial and Fifth Third Processing Solutions.

Electronic payment processing (EPP) revenue of $230 million declined two percent compared to the third quarter of 2008 and increased three percent from the fourth quarter of 2007. Merchant processing revenue was flat sequentially and compared to the same quarter last year, as the benefit of continued account acquisition was offset by a decline in average dollar amount per credit card transaction due to lower consumer spending. Financial institutions revenue decreased three percent compared with the previous quarter, relating to lower transaction volumes in a weaker economic environment, and grew four percent from the fourth quarter of 2007 on higher transaction volumes. Card issuer interchange revenue declined two percent sequentially, driven primarily by a decline in the average dollar amount per debit and credit card transaction. Card issuer interchange revenue increased seven percent from the previous year, driven by higher credit card transactions as a result of the Bancorp s credit card growth initiative, partially offset by a lower dollar amount per transaction.

Service charges on deposits of $162 million decreased six percent sequentially and increased two percent compared with the same quarter last year. Retail service charges decreased 12% from the third quarter of 2008 and seven percent from the fourth quarter of 2007 due to lower checking account transaction volumes. Commercial service charges increased three percent sequentially and 14% compared with last year. This growth primarily reflected an increase in customer accounts and lower market interest rates, as reduced earnings credit rates paid on customer balances have resulted in higher realized net services fees to pay for treasury management services.

Corporate banking revenue of $121 million increased by $17 million, or 16% from the previous quarter and $15 million, or 14% on a year-over-year basis and was driven by growth in most subcaptions as the Bancorp realized gains from the build out of its commercial product offerings in 2007.

Investment advisory revenue of $78 million was down 13% sequentially and 17% from the fourth quarter of 2007 reflecting lower asset values on market declines and a shift in assets from equity products to lower yielding money market funds due to extreme market volatility.

Mortgage banking net revenue was a net loss of $29 million in the fourth quarter of 2008, a net gain of $45 million in the third quarter of 2008 and a net gain of $26 million in the fourth quarter of 2007. Including securities gains on non-qualifying hedges on MSRs, income from mortgage banking activity was flat compared to the third quarter of 2008 and increased $35 million compared to the fourth quarter of 2007. Fourth quarter originations were $2.1 billion, compared to $2.0 billion from the previous quarter and $2.7 billion from the same quarter last year. The adoption of SFAS No. 159 for mortgage banking in the first quarter of 2008 contributed $12 million of the year-over-year increase in mortgage banking revenue, with corresponding origination costs recorded in noninterest expense.

Net losses on investment securities were $40 million in the fourth quarter of 2008 compared with a net loss of $63 million last quarter. The fourth quarter losses were driven by an OTTI charge of $37 million on trust preferred securities. As of December 31, 2008, the Bancorp held $154 million in trust preferred securities.

Noninterest expense of $2.0 billion increased $1.1 billion both sequentially and from a year ago. The significant increase in expenses was primarily driven by the $965 million charge to record goodwill impairment in the fourth quarter of 2008. Excluding this charge, noninterest expense of $1.1 billion increased $90 million sequentially and $117 million from a year ago. Fourth quarter results included higher expenses related to the difficult operating environment that included higher provision for unfunded commitments, higher reinsurance reserve accruals to cover losses on proprietary private residential mortgage insurance and increased derivative counterparty marks. The combination of these expenses accounted for expense increases of $91 million sequentially and $96 million compared to the previous year. Additionally, fourth quarter 2008 results included an estimated net $8 million charge due to changes in loss estimates related to our indemnification obligation with Visa, while third quarter results included a $45 million charge

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related to Visa litigation, $36 million related to legal expenses associated with the satisfactory resolution of a the CitFed litigation, and $7 million in seasonally higher pension expense. Fourth quarter 2007 results included a $94 million charge due to Visa litigation and $8 million in acquisition related expenses. On a year-over-year comparison basis, acquisitions added approximately $26 million of additional operating expense, and the impact of the adoption of SFAS No. 159 on the classification of mortgage origination costs has added approximately $12 million. Remaining expense growth on both a sequential and year-over-year basis was attributable to higher volume-related payment processing expense, increased equipment and occupancy expense, and higher loan and lease processing costs as a result of increased collection activities.

Net charge-offs totaled $1.6 billion in the fourth quarter. Results included net charge-offs of $800 million on commercial loans that were either sold or transferred to held-for-sale during the quarter. Loss experience continued to be primarily associated with commercial residential builder and developer loans and consumer residential real estate loans, and to be disproportionately concentrated in Michigan and Florida. In aggregate, Florida and Michigan represented approximately 66% of total losses during the quarter and less than 30% of total loans and leases. Losses on commercial and consumer real estate loans in these states represented approximately 56% of total fourth quarter net charge-offs. Net charge-offs on loans to homebuilders and developers represented $568 million, or 35% of total net charge-offs. Provision for loan and lease losses totaled $2.8 billion in the fourth quarter of 2008, exceeding net charge-offs by $729 million. The increase in the allowance for loan and lease losses was reflective of a number of factors including; increased estimated loss factors due to negative trends in nonperforming assets and overall delinquencies; increased loss estimates due to the real estate price deterioration in some of the Bancorp s key lending markets; and significant declines in general economic conditions.

COMPARISON OF THE YEAR ENDED 2007 WITH 2006

Net income for the year ended 2007 was $1.1 billion, or $1.99 per diluted share, a nine percent decrease compared to $1.2 billion, or $2.13 per diluted share, earned in 2006. Overall, increases in net interest margin and fee revenue were offset by a $177 million charge to lower the current cash surrender value of one of the Bancorp s BOLI policies and increased provision for loan and lease losses. The BOLI charge reflected a decrease in the cash surrender value due to declines in the value of the policy s underlying investments due to significant disruptions in the financial markets and widening credit spreads. Provision for loan and lease losses increased $285 million over 2006 to

$628 million, a result of the deteriorating credit environment.

Net interest income (FTE) increased five percent compared to 2006. Net interest margin increased to 3.36% in 2007 from 3.06% in 2006 largely due to the balance sheet actions taken in the fourth quarter of 2006 to improve the asset/liability mix of the Bancorp and reduce the size of the Bancorp s available-for-sale securities portfolio to a size that was more consistent with its liquidity, collateral and interest rate risk management requirements.

Noninterest income increased 23% compared to 2006. Noninterest income in 2007 reflects the impact of the previously mentioned $177 million BOLI charge, while the 2006 results included $415 million in losses related to the fourth quarter balance sheet actions. Excluding these items, noninterest income increased nine percent compared to 2006 with growth in electronic payment processing, service charges on deposits and corporate banking revenue partially offset by lower mortgage banking net revenue.

Noninterest expense increased 14% compared to 2006. Noninterest expense in 2007 included $172 million in charges related to the Bancorp s indemnification of estimated current and future Visa litigation settlements and $8 million of acquisition-related costs, while 2006 results included $49 million in charges related to the termination of debt and other financing agreements. Excluding these items, noninterest expense increased nine percent resulting from volume-based transaction growth in payment processing, higher technology related expenses reflecting infrastructure upgrades and higher occupancy expense from continued de novo banking center growth. During 2007, the Bancorp opened 77 additional banking centers through acquisitions and de novo expansion.

In 2007, net charge-offs as a percent of average loans and leases were 61 bp compared to 44 bp in 2006. A majority of the increase in net charge-offs were due to the weakened real estate markets in the Upper Midwest and Florida, which suppressed collateral values. At December 31, 2007, nonperforming assets as a percent of loans and leases increased to 1.32% from .61% at December 31, 2006. The Bancorp increased its allowance for loan and lease losses as percent of loans and leases from 1.04% as December 31, 2006 to 1.17% as of December 31, 2007.

During 2007, the Bancorp completed its acquisition of Crown, a subsidiary of R&G Financial Corporation, with $2.8 billion in assets and $1.7 billion in deposits located in Florida and Augusta, Georgia. Additionally, on August 16, 2007, the Bancorp announced its introduction into the North Carolina markets of Charlotte and Raleigh with an agreement to acquire First Charter, which was completed in the second quarter of 2008.

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BALANCE SHEET ANALYSIS

Loans and Leases

Total loans and leases increased $1.0 billion, or one percent, over 2007. The growth in total loans and leases was due to acquisitions since 2007, the use of contingent liquidity facilities related to certain off-balance sheet programs and increased loan production across the Bancorp s footprint, partially offset by loan securitizations.

Total commercial loans and leases increased $3.6 billion, or eight percent, compared to December 31, 2007. The increase was primarily driven by growth in commercial loans of $3.1 billion, or 12%, compared to 2007 resulting from $1.8 billion from acquisitions since 2007 and $849 million from the use of contingent liquidity facilities related to certain off-balance sheet programs that were drawn upon in 2008. Included within the contingent liquidity facilities were approximately $187 million of loans outstanding at December 31, 2008 that were repurchased from a QSPE under the Bancorp s liquidity asset purchase agreement. Also included in commercial loans at December 31, 2008 were $173 million in draws on outstanding letters of credit that were supporting certain securities issued as VRDNs. For further information on these arrangements, see the Off-Balance Sheet Arrangements section and Note 10 of the Notes to Consolidated Financial Statements.

Commercial mortgage loans increased eight percent compared to 2007, which primarily included the impact of acquisitions since 2007 of $971 million. The Bancorp s largest gains in outstanding loans among industries included the financial services and insurance, manufacturing, healthcare and business services. Reductions among originations to the real estate and construction industries were offset by the second quarter 2008 acquisition of First Charter. In aggregate, commercial loans in the states of Michigan and Florida as a percentage of total commercial loans was 26% as of December 31, 2008 compared to 31% as of December 31, 2007.

Total consumer loans and leases decreased $2.6 billion, or seven percent, compared to 2007, as a result of the decreases in automobile loans and residential mortgage loans partially offset by credit card and home equity loan growth. Automobile loans decreased by approximately $2.6 billion, or 23%, due largely to automobile loan securitizations of $2.7 billion during the first quarter of 2008. Despite growth of $535 million of loans from acquisitions since 2007, residential mortgage loans were $10.3 billion at December 31, 2008, down 10% from 2007, due to the sale of $1.7 billion of portfolio loans in 2008 compared to $572 million in 2007. Credit card loans increased to $1.8 billion, an increase of 14% over 2007, due to continued success in cross-selling credit cards to its existing retail customer base. Home equity loans increased $878 million, primarily due to acquisitions since 2007.

Average total commercial loans and leases increased $8.0 billion, or 19%, compared to 2007. The increase in average total commercial loans and leases was primarily driven by growth in commercial loans and commercial mortgage loans, which increased 27% and 15%, respectively, over 2007. The increase in average commercial loans was driven by the use of contingent liquidity facilities related to certain off-balance sheet programs. The growth in commercial mortgage loans included the impact of acquisitions since 2007 of $693 million.

Average total consumer loans and leases decreased $468 million, or one percent, compared to 2007 as a result of a decrease in automobile loans of 17% largely due to the aforementioned automobile securitizations that occurred in the first quarter of 2008. The decline was partially offset by growth in credit card balances of $432 million, or 34%, and home equity loans of $504 million, or five percent. Acquisitions since 2007 impacted the change in residential mortgage loans and home equity loans by $1.5 billion and $409 million, respectively.

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

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Commercial:					
Commercial loans	**$29,220**	26,079	20,831	19,377	16,107
Commercial mortgage	**12,952**	11,967	10,405	9,188	7,636
Commercial construction	**5,114**	5,561	6,168	6,342	4,348
Commercial leases	**3,666**	3,737	3,841	3,698	3,426
Subtotal - commercial	**50,952**	47,344	41,245	38,605	31,517

Consumer:					
Residential mortgage loans	**10,292**	11,433	9,905	8,991	7,912
Home equity	**12,752**	11,874	12,154	11,805	10,318
Automobile loans	**8,594**	11,183	10,028	9,396	7,734
Credit card	**1,811**	1,591	1,004	788	794
Other consumer loans and leases	**1,194**	1,157	1,167	1,644	2,092
Subtotal - consumer	**34,643**	37,238	34,258	32,624	28,850
Total loans and leases	**$85,595**	84,582	75,503	71,229	60,367

TABLE 20: COMPONENTS OF AVERAGE TOTAL LOANS AND LEASES (INCLUDES HELD FOR SALE)

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Commercial:					
Commercial loans	**$28,426**	22,351	20,504	18,310	14,955
Commercial mortgage	**12,776**	11,078	9,797	8,923	7,391
Commercial construction	**5,846**	5,661	6,015	5,525	3,807
Commercial leases	**3,680**	3,683	3,730	3,495	3,296
Subtotal - commercial	**50,728**	42,773	40,046	36,253	29,449
Consumer:					
Residential mortgage loans	**10,993**	10,489	9,574	8,982	6,801
Home equity	**12,269**	11,887	12,070	11,228	9,584
Automobile loans	**8,925**	10,704	9,570	8,649	8,128
Credit card	**1,708**	1,276	838	728	740
Other consumer loans and leases	**1,212**	1,219	1,395	1,897	2,340
Subtotal - consumer	**35,107**	35,575	33,447	31,484	27,593
Total average loans and leases	**$85,835**	78,348	73,493	67,737	57,042
Total average portfolio loans and leases (excludes held for sale)	**$83,895**	76,033	72,447	66,685	55,951

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TABLE 21: COMPONENTS OF INVESTMENT SECURITIES

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Trading:					
Variable rate demand notes	**$1,140**	-	-	-	-
Other securities	**51**	171	187	117	77
Total trading	**$1,191**	171	187	117	77
Available-for-sale and other: (amortized cost basis)					
U.S. Treasury and Government agencies	**$186**	3	1,396	506	503
U.S. Government sponsored agencies	**1,651**	160	100	2,034	2,036
Obligations of states and political subdivisions	**323**	490	603	657	823
Agency mortgage-backed securities	**8,529**	8,738	7,999	16,127	17,571
Other bonds, notes and debentures	**613**	385	172	2,119	2,862
Other securities	**1,248**	1,045	966	1,090	1,006
Total available-for-sale and other	**$12,550**	10,821	11,236	22,533	24,801
Held-to-maturity:					
Obligations of states and political subdivisions	**$355**	351	345	378	245
Other bonds, notes and debentures	**5**	4	11	11	10
Total held-to-maturity	**$360**	355	356	389	255

Investment Securities

The Bancorp uses investment securities as a means of managing interest rate risk, providing liquidity support and providing collateral for pledging purposes. As of December 31, 2008, total investment securities were $14.3 billion compared to $11.2 billion at December 31, 2007.

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. The Bancorp s

management has evaluated the securities in an unrealized loss position in the available-for-sale portfolio for 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. Securities, which management has the intent and ability to hold to maturity and are classified as held-to-maturity are reported at amortized cost.

At December 31, 2008, the Bancorp s investment portfolio primarily consisted of AAA-rated agency mortgage-backed securities. The investment portfolio includes FHLMC preferred

TABLE 22: CHARACTERISTICS OF AVAILABLE-FOR-SALE AND OTHER SECURITIES

As of December 31, 2008 ($ 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	$41	$41	0.8	2.11%
Average life 1 5 years	143	147	1.5	2.10
Average life 5 10 years	-	-	-	-
Average life greater than 10 years	2	2	11.2	2.46
Total	186	190	1.5	2.11
U.S. Government sponsored agencies:				
Average life of one year or less	164	165	0.1	4.47

Average life 1 5 years	168	174	1.7	3.10
Average life 5 10 years	1,319	1,391	7.7	3.79
Average life greater than 10 years	-	-	-	-
Total	1,651	1,730	6.4	3.78
Obligations of states and political subdivisions *(a)*:				
Average life of one year or less	202	203	0.3	7.31
Average life 1 5 years	71	72	2.5	7.18
Average life 5 10 years	49	50	7.5	6.87
Average life greater than 10 years	1	1	12.1	3.93
Total	323	326	1.9	7.21
Agency mortgage-backed securities:				
Average life of one year or less	909	919	0.7	5.44
Average life 1 5 years	7,337	7,470	2.7	5.24
Average life 5 10 years	282	291	5.6	5.28
Average life greater than 10 years	1	1	10.4	5.09
Total	8,529	8,681	2.6	5.26
Other bonds, notes and debentures *(b)*:				
Average life of one year or less	186	178	0.1	2.51
Average life 1 5 years	265	242	3.0	7.27
Average life 5 10 years	112	102	6.6	7.55
Average life greater than 10 years	50	48	25.4	7.20
Total	613	570	4.6	5.87
Other securities *(c)*	1,248	1,231		
Total available-for-sale and other securities	$12,550	$12,728	3.2	5.08%

(a) Taxable-equivalent yield adjustments included in the above table are 2.46%, 2.13%, 0.26%, 1.32% and 2.05% for securities with an average life of one year or less, 1-5 years, 5-10 years, greater than 10 years and in total, respectively.

(b) Other bonds, notes, and debentures consist of commercial paper, non-agency mortgage backed securities, certain other asset backed securities (primarily automobile and commercial loan backed securities) and corporate bond securities.

(c) Other securities consist of Federal Home Loan Bank (FHLB) and Federal Reserve Bank restricted stock holdings that are carried at par, FHLMC and FNMA preferred stock, certain mutual fund holdings and equity security holdings.

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stock and FNMA preferred securities with a remaining carrying value of $1 million after recognizing OTTI charges of $67 million during 2008. The Bancorp also recognized OTTI charges of $37 million on certain trust preferred securities, which have a remaining carrying value of $79 million. Total trust preferred securities have a carrying value of $154 million at December 31, 2008. These charges were recognized due to the severity of the decline in fair value of these securities throughout 2008. The Bancorp did not hold asset-backed securities backed by subprime mortgage loans in its investment portfolio at or for the year ended December 31, 2008. Additionally, there were no material securities below investment grade as of December 31, 2008.

Trading securities increased from $171 million as of December 31, 2007 to $1.2 billion as of December 31, 2008. The increase was driven by $1.1 billion of VRDNs held by the Bancorp in its trading securities portfolio. These securities were purchased from the market during 2008, through FTS, who was also the remarketing agent. For more information on the Bancorp s obligations in remarketing VRDNs, see Note 15 of the Notes to Consolidated Financial Statements.

On an amortized cost basis, at the end of 2008, available-for-sale securities increased $1.7 billion since December 31, 2007. At December 31, 2008 and 2007, available-for-sale securities were 12% and 11%, respectively, of interest-earning assets. Increases in the available-for-sale securities portfolio relate to the Bancorp s overall balance sheet growth coupled with the increased purchase of securities as a part of the Bancorp s non-qualifying hedging strategy related to mortgage servicing rights. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 3.2 years at December 31, 2008 compared to 6.8 years at December 31, 2007. The decrease in the weighted-average life of the debt securities portfolio was due to the decline in market rates during the fourth quarter of 2008. The market rate decline 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 December 31, 2008, the fixed-rate securities within the available-for-sale securities portfolio had a weighted-average yield of 5.08% compared to 5.31% at December 31, 2007.

During the second half of 2007 and continuing through 2008, as part of its liquidity support agreement, the Bancorp

began to purchase investment grade commercial paper from an unconsolidated QSPE that is wholly owned by an independent third-party. The commercial paper has maturities ranging from as little as one day to 90 days. The purchase and maturity of the commercial paper is the primary contributor to the increase in the purchases and sales of available-for-sale securities during 2008 and 2007. The commercial paper is backed by the assets held by the QSPE and, as of the December 31, 2008 and 2007, the Bancorp held $143 million and $83 million of this commercial paper in its available-for-sale portfolio. Refer to the Off-balance Sheet Arrangements section for more information on the QSPE.

Information presented in Table 22 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. Market rates declined in 2008, particularly in the fourth quarter. This market rate decline led to unrealized gains of $152 million and $79 million, respectively, related to agency mortgage-backed securities and securities held with U.S. Government sponsored agencies as of December 31, 2008. Total net unrealized gains on the available-for-sale securities portfolio was $178 million at December 31, 2008 compared to an unrealized loss of $144 million at December 31, 2007 and a $183 million unrealized loss at December 31, 2006.

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 acquisitions, offering competitive rates and enhancing its product offerings. At December 31, 2008, core deposits represented 55% of the Bancorp s asset funding base, compared to 59% at December 31, 2007.

Included in core deposits are foreign office deposits, which are Eurodollar sweep accounts for the Bancorp s commercial customers. These accounts bear interest at rates slightly higher than money market accounts, but the Bancorp does not have to pay FDIC insurance nor hold collateral. Other deposits consist of brokered savings and money market deposits and the Bancorp uses these, as well as certificates of deposit $100,000 and over, as a

TABLE 23: DEPOSITS

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Demand	**$15,287**	14,404	14,331	14,609	13,486
Interest checking	**13,826**	15,254	15,993	18,282	19,481
Savings	**16,063**	15,635	13,181	11,276	8,310
Money market	**4,689**	6,521	6,584	6,129	4,321
Foreign office	**2,144**	2,572	1,353	421	153
Transaction deposits	**52,009**	54,386	51,442	50,717	45,751
Other time	**14,350**	11,440	10,987	9,313	6,837
Core deposits	**66,359**	65,826	62,429	60,030	52,588
Certificates - $100,000 and over	**11,851**	6,738	6,628	4,343	2,121
Other	**403**	2,881	323	3,061	3,517
Total deposits	**$78,613**	75,445	69,380	67,434	58,226

TABLE 24: AVERAGE DEPOSITS

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Demand	**$14,017**	13,261	13,741	13,868	12,327
Interest checking	**14,095**	14,820	16,650	18,884	19,434
Savings	**16,192**	14,836	12,189	10,007	7,941
Money market	**6,127**	6,308	6,366	5,170	3,473
Foreign office	**2,153**	1,762	732	248	85
Transaction deposits	**52,584**	50,987	49,678	48,177	43,260
Other time	**11,135**	10,778	10,500	8,491	6,208
Core deposits	**63,719**	61,765	60,178	56,668	49,468
Certificates - $100,000 and over	**9,531**	6,466	5,795	4,001	2,403
Other	**2,163**	1,393	2,979	3,719	4,364
Total average deposits	**$75,413**	69,624	68,952	64,388	56,235

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method to fund earning asset growth.

Core deposits increased one percent compared to 2007 due to acquisitions during the past year. Exclusive of acquisitions, core deposits decreased three percent, as growth in demand, savings, and other time deposits was more than offset by a three percent decrease in interest-bearing core deposits as a result of increased competitor pricing on time deposits. A majority of the increase in deposit pricing was the result of the impact of the illiquidity in the marketplace that provided other financial institutions limited access to alternative funding sources. The Bancorp increased its rates during the third quarter of 2008 to approximate competitor rates and experienced increases in its interest-bearing core deposit products following these actions.

Certificates $100,000 and over at December 31, 2008 increased by $5.1 billion and other deposits decreased by $2.5 billion compared to December 31, 2007 primarily driven by growth in customer jumbo CD s and other time deposits in an overall effort by the Bancorp to reduce exposure to market related funding.

On an average basis, core deposits increased three percent primarily due to acquisitions that occurred since 2007. Exclusive of acquisitions, average core deposits remained flat compared to 2007 as increases in demand deposits due to decreased earnings credit rates were partially offset by the decrease in interest-bearing core deposit products.

On an average basis, savings deposits increased nine percent primarily due to acquisitions that occurred since 2007. Exclusive of acquisitions, average savings deposits increased seven percent. This growth is primarily due to a mix shift as customers migrated from lower yielding interest checking into higher yielding savings accounts.

Borrowings

Total borrowings increased $1.8 billion, or eight percent, over 2007, to provide funding for the growth in the assets throughout 2008. As of December 31, 2008 and December 31, 2007, total

borrowings as a percentage of interest-bearing liabilities remained consistent at 27%.

Total short-term borrowings were $10.2 billion at December 31, 2008 compared to $9.2 billion at December 31, 2007. The reduction in the overnight fed funds purchased balance was due to the receipt of $3.4 billion in equity funding from the U.S. Treasury under the CPP on December 31, 2008 and an increase in other short-term borrowings primarily through the purchase of term funding through FHLB advances and Term Auction Facility funds.

Long-term debt at December 31, 2008 increased six percent compared with December 31, 2007 due to increased fair value marks on hedged debt. Among debt issuances, new issuances during the first and second quarters of 2008 were offset by $2.1 billion of long-term bank notes maturing during 2008. In February 2008, the Bancorp issued $1.0 billion of 8.25% subordinated notes, a portion of which were subsequently hedged to floating, with a maturity date of March 1, 2038. In April 2008, the Bancorp issued $750 million of 6.25% senior notes with a maturity date of May 1, 2013. The notes are not subject to redemption at the Bancorp s option at any time prior to maturity. Additionally, in May 2008, an unconsolidated trust issued $400 million of Tier 1-qualifying trust preferred securities and invested these proceeds in junior subordinated notes issued by the Bancorp. The notes mature on May 15, 2068 and bear a fixed rate of 8.875% until May 15, 2058. After May 15, 2058, the notes bear interest at a variable rate of three-month LIBOR plus 5.00%. The Bancorp has subsequently entered into hedges related to these notes.

Information on the average rates paid on borrowings is located in the Statements of Income Analysis. Further detail on the Bancorp s long-term debt can be found in Note 14 of the Notes to Consolidated Financial Statements. In addition, refer to the Liquidity Risk Management section for a discussion on the role of borrowings in the Bancorp s liquidity management.

TABLE 25: BORROWINGS

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Federal funds purchased	**$287**	4,427	1,421	5,323	4,714
Short-term bank notes	**-**	-	-	-	775
Other short-term borrowings	**9,959**	4,747	2,796	4,246	4,537
Long-term debt	**13,585**	12,857	12,558	15,227	13,983
Total borrowings	**$23,831**	22,031	16,775	24,796	24,009

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RISK MANAGEMENT

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 soundless 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 provide 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.

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

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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

During 2008, general economic conditions continued to deteriorate 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 by automobile manufacturers. The year-over-year deterioration in home prices has been as high as 20% in some of the Bancorp s hardest hit geographies. 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 non-owner occupied residential mortgages. During the fourth quarter, 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 loan balances. The Bancorp recognized $800 million in net charge-offs on these loans with approximately 49% of the losses representing real estate secured loans in Florida and 44% of the losses representing real estate secured loans in Michigan. Throughout 2008, the Bancorp aggressively engaged in other loss mitigation techniques such as reducing lines of credit, restructuring certain consumer loans, tightening certain underwriting standards 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

27 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.

As of December 31, 2008, the Bancorp had homebuilder exposure of $4.0 billion and outstanding loans of $2.7 billion with $366 million of portfolio commercial loans and $215 million in held-for-sale commercial loans in nonaccrual loans. As of December 31, 2008, approximately 41% of the outstanding loans to homebuilders are located in the states of Michigan and Florida and represent approximately 58% of the nonaccrual loans. As of December 31, 2007, the Bancorp had homebuilder exposure of $4.4 billion, outstanding loans of $2.9 billion with $176 million in nonaccrual loans.

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 proforma analysis requirements.

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. Table 26 provides further information on the location of commercial real estate and construction industry loans and leases.

The commercial portfolio has minimal direct exposure to auto manufactures and their suppliers, although any further deterioration of those industries would have negative impacts across the Bancorp s lending products. As of December 31, 2008, the Bancorp had automobile dealer exposure, included within the retail trade industry, of $3.1 billion and outstanding loans of $2.0 billion with $113 million in nonaccrual loans.

TABLE 26: COMMERCIAL REAL ESTATE AND CONSTRUCTION LOANS AND LEASES BY STATE

	Outstanding		Nonaccrual	
As of December 31 ($ in millions)	**2008**	2007	**2008**	2007
Ohio	**$4,247**	4,167	**$180**	84
Michigan	**3,930**	4,692	**302**	179
Florida	**2,374**	2,790	**399**	79
Illinois	**1,384**	1,425	**95**	21
Indiana	**1,108**	1,298	**86**	26
North Carolina	**802**	21	**49**	-
Kentucky	**788**	791	**24**	7
Tennessee	**455**	496	**51**	4
All other states	**1,866**	1,110	**95**	5
Total	**$16,954**	16,790	**$1,281**	405

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TABLE 27: COMMERCIAL LOAN AND LEASE PORTFOLIO EXPOSURE *(a)*

	2008			2007		
As of December 31 ($ in millions)	**Outstanding**	**Exposure**	**Nonaccrual**	Outstanding	Exposure	Nonaccrual
By industry:						
Real estate	**$11,925**	**14,428**	**583**	11,564	14,450	147
Manufacturing	**7,382**	**14,310**	**92**	6,570	14,365	28
Construction	**5,030**	**7,788**	**698**	5,226	8,534	258
Retail trade	**3,621**	**6,874**	**167**	4,175	7,251	29
Financial services and insurance	**3,601**	**8,164**	**28**	2,484	6,916	6
Healthcare	**3,081**	**5,057**	**20**	2,347	4,007	15
Business services	**2,925**	**5,141**	**38**	2,266	4,251	25
Transportation and warehousing	**2,726**	**3,224**	**26**	2,565	3,076	21
Wholesale trade	**2,567**	**4,772**	**25**	2,179	4,127	16
Other services	**1,203**	**1,712**	**22**	1,049	1,455	17
Accommodation and food	**1,163**	**1,560**	**38**	1,036	1,470	21
Individuals	**1,053**	**1,354**	**38**	1,252	1,626	15
Communication and information	**951**	**1,547**	**19**	741	1,439	1
Mining	**838**	**1,275**	**18**	578	1,090	3
Entertainment and recreation	**765**	**1,009**	**35**	617	873	6
Public administration	**725**	**938**	**-**	737	957	-
Agribusiness	**635**	**815**	**21**	606	788	3
Utilities	**584**	**1,231**	**-**	389	1,210	2
Other	**178**	**369**	**11**	963	1,897	59
Total	**$50,953**	**81,568**	**1,879**	47,334	79,782	672
By loan size:						
Less than $200,000	**3%**	**2**	**5**	3	3	9
$200,000 to $1 million	**12**	**9**	**21**	13	10	24
$1 million to $5 million	**25**	**21**	**45**	28	23	43
$5 million to $10 million	**14**	**13**	**20**	26	23	19
$10 million to $25 million	**23**	**24**	**9**	13	14	5
Greater than $25 million	**23**	**31**	**-**	17	27	-
Total	**100%**	**100**	**100**	100	100	100
By state:						
Ohio	**26%**	**30**	**14**	26	30	20
Michigan	**17**	**16**	**22**	20	18	36
Florida	**9**	**8**	**25**	11	9	23
Illinois	**8**	**9**	**8**	9	9	6
Indiana	**7**	**7**	**8**	8	8	9
Kentucky	**5**	**5**	**5**	5	5	2
North Carolina	**3**	**3**	**4**	1	1	-
Tennessee	**3**	**2**	**3**	3	3	1
All other states	**22**	**20**	**11**	17	17	3
Total	**100%**	**100**	**100**	100	100	100

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

Residential Mortgage Portfolio

The Bancorp manages credit risk in the mortgage portfolio through conservative underwriting and documentation standards and geographic and product diversification. The Bancorp may also package and sell loans in the portfolio without recourse or may purchase mortgage insurance for the loans sold in order to mitigate credit risk.

Certain mortgage products have contractual features that may increase the risk of loss 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 loan-to-value (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 28 shows the Bancorp s originations of these products for the year ended December 31, 2008 and 2007. 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 29 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 December 31, 2008 and 2007. Reset of rates on adjustable rate mortgages are not

expected to have a material impact on credit cost as two-thirds of adjustable rate mortgages have an LTV less than 80%. Geographically, the Bancorp s residential mortgage portfolio is dominated by three states with Florida, Michigan and Ohio representing 31%, 23% and 14% of the portfolio, respectively.

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 December 31, 2008, the Bancorp held $115 million of Alt-A mortgage loans in its portfolio with approximately $17 million on nonaccrual.

The Bancorp previously sold certain mortgage products in the secondary market with recourse. At December 31, 2008 and 2007, the outstanding balances on these loans sold with recourse were approximately $1.3 billion and $1.5 billion, respectively, and the delinquency rates were approximately 6.40% and 3.03%, respectively. At December 31, 2008 and 2007, the Bancorp maintained an estimated credit loss reserve on these loans sold with recourse of approximately $20 million and $17 million, respectively. See Note 10 of the Notes to Consolidated Financial Statements for further information.

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TABLE 28: RESIDENTIAL MORTGAGE ORIGINATIONS

For the years ended December 31 ($ in millions)	**2008**	**Percent of total**	2007	Percent of total
Greater than 80% LTV with no mortgage insurance	**$15**	**-%**	$265	2%
Interest-only	**784**	**7**	1,720	15
Greater than 80% LTV and interest-only	**2**	**-**	265	2
80/20 loans	**38**	**-**	212	2
80/20 loans and interest only	**-**	**-**	62	1

TABLE 29: RESIDENTIAL MORTGAGE OUTSTANDINGS

		2008			2007	
As of December 31 ($ in millions)	**Balance**	**Percent of total**	**Delinquency Ratio**	Balance	Percent of total	Delinquency Ratio
Greater than 80% LTV with no mortgage insurance	**$2,024**	**22%**	**10.94%**	$2,146	21%	8.93%
Interest-only	**1,702**	**18**	**4.11**	1,620	16	1.83
Greater than 80% LTV and interest-only	**415**	**4**	**7.55**	493	5	5.36

Home Equity Portfolio

The home equity portfolio is characterized by 82% of outstanding balances within the Bancorp s Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois. The portfolio has an average FICO score of 736 as of December 31, 2008, comparable with 734 at December 31, 2007 and 735 at December 31, 2006. Further detail on channel origination and state location is included in Table 30. The Bancorp stopped origination of brokered home equity 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.

Analysis of Nonperforming Assets

A summary of nonperforming assets is included in Table 31. 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 have not yet met the requirements to be classified as a performing asset; 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 90 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.

Total nonperforming assets were $3.0 billion at December 31, 2008, compared to $1.1 billion at December 31, 2007 and $455 million at December 31, 2006. At December 31, 2008, $473 million of nonaccrual commercial loans were held-for-sale, consisting 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 December 31, 2008 was 2.96% compared to 1.32% as of December 31, 2007 and .61% as of December 31, 2006. The composition of nonaccrual credits continues to be concentrated in real estate as

82% of nonaccrual credits were secured by real estate as of December 31, 2008 compared to approximately 84% as of December 31, 2007 and approximately 45% as of December 31, 2006.

Including the $473 million of nonperforming loans held-for-sale, commercial nonperforming loans and leases increased from $672 million at December 31, 2007 to $1.9 billion as of December 31, 2008. 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 47% of total commercial nonaccrual credits as of December 31, 2008. 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 $1.3 billion of real estate and construction nonaccrual credits, $581 million is related to homebuilders or developers. As of December 31, 2008, $247 million of these homebuilder nonaccrual loans were specifically reviewed and the Bancorp provided $104 million in reserves held against these loans. For additional information on credit reserves, see the discussion on allowance for credit losses later in this section.

Consumer nonperforming loans and leases increased from $221 million as of December 31, 2007 to $864 million as of December 31, 2008. The increase in consumer nonperforming loans is primarily attributable to declines in the housing markets in the Michigan and Florida markets and the restructuring of certain loans. Michigan and Florida accounted for 58% of the increase in consumer nonperforming assets and, as of December 31, 2008, represented 58% 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 recorded as nonperforming loans until there is a sustained period of payment by the borrower, generally a minimum of six months of payments in accordance

TABLE 30: HOME EQUITY OUTSTANDINGS

	Retail				Broker			
	2008		2007		**2008**		2007	
		Delinquency		Delinquency		**Delinquency**		Delinquency
As of December 31 ($ in millions)	**Outstanding**	**Ratio**	Outstanding	Ratio	**Outstanding**	**Ratio**	Outstanding	Ratio
Ohio	**$3,393**	**1.49%**	$3,280	1.23%	**$568**	**3.65%**	$632	3.15%
Michigan	**2,245**	**2.24**	2,158	1.63	**484**	**5.51**	530	3.56
Illinois	**1,147**	**2.10**	908	1.18	**261**	**4.93**	274	2.66
Indiana	**968**	**2.07**	991	1.67	**244**	**4.59**	278	3.16
Kentucky	**910**	**1.52**	885	1.16	**185**	**4.43**	217	3.09
Florida	**909**	**4.13**	738	2.37	**77**	**12.16**	89	7.97
All other states	**804**	**2.11**	204	1.06	**557**	**6.29**	659	3.73
Total	**$10,376**	**2.06%**	$9,164	1.45%	**$2,376**	**5.22%**	$2,679	3.48%

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TABLE 31: SUMMARY OF NONPERFORMING ASSETS AND DELINQUENT LOANS

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Nonaccrual loans and leases:					
Commercial loans	**$541**	175	127	140	105
Commercial mortgage loans	**482**	243	84	51	51
Commercial construction loans	**362**	249	54	31	13
Commercial leases	**21**	5	6	5	5
Residential mortgage loans	**259**	92	38	30	24
Home equity *(a)*	**26**	45	40		
Automobile loans *(a)*	**5**	3	3		
Other consumer loans and leases *(a)*	**-**	1	-	37	30
Restructured loans and leases:					
Commercial loans	**-**	-	-	-	1
Residential mortgage loans	**342**	29	-	-	-
Home equity	**196**	46	-	-	-
Automobile loans	**6**	-	-	-	-
Credit card	**30**	5	-	-	-
Total nonperforming loans and leases	**2,270**	893	352	294	229
Repossessed personal property and other real estate owned	**230**	171	103	67	74
Total nonperforming assets *(b)*	**2,500**	1,064	455	361	303
Nonaccrual loans held for sale	**473**	-	-	-	-
Total nonperforming assets including loans held for sale	**$2,973**	1,064	455	361	303
Commercial loans	**$76**	44	38	20	21
Commercial mortgage loans	**136**	73	17	7	8
Commercial construction loans	**74**	67	6	7	5
Commercial leases	**4**	4	2	1	1
Residential mortgage loans *(c)*	**198**	186	68	53	43
Home equity	**96**	72	51		
Automobile loans	**21**	13	11		
Credit card	**56**	31	16	10	13
Other consumer loans and leases	**1**	1	1	57	51
Total 90 days past due loans and leases	**$662**	491	210	155	142
Nonperforming assets as a percent of total loans, leases and other assets, including other real estate owned *(b)*	**2.96%**	1.32	.61	.52	.51
Allowance for loan and lease losses as a percent of nonperforming assets *(b)*	**111**	88	170	206	235

(a) Prior to 2006, other consumer loans and leases include home equity, automobile and other consumer loans and leases.

(b) Does not include nonaccrual loans held for sale.

(c) 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 December 31, 2008, 2007, 2006 and 2005, these advances were $40 million, $25 million, $14 million and $13 million, respectively. Information in 2004 was not available.

with the loans modified terms. Consumer restructured loans contributed $574 million to nonperforming loans as of December 31, 2008 compared to $80 million in restructured loans as of December 31, 2007.

Included in nonaccrual loans and leases as of December 31, 2008 were $342 million of loans and leases currently performing in accordance with contractual terms, but for which there were serious doubts as to the ability of the borrower to comply with such terms. For the years 2008 and 2007, interest income of $70 million and $22 million, respectively, was recorded on nonaccrual and renegotiated loans and leases. For the years ended 2008 and 2007, additional interest income of $282 million and $144 million, respectively, would have been recorded if the nonaccrual and renegotiated loans and leases had been current in accordance with the original 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.

Analysis of Net Loan Charge-offs

Net charge-offs as a percent of average loans and leases were 323 bp for 2008, compared to 61 bp for 2007. Table 32 provides a summary of credit loss experience and net charge-offs as a percentage of average loans and leases outstanding by loan category.

The ratio of commercial loan net charge-offs to average commercial loans outstanding increased to 399 bp in 2008 compared to 43 bp in 2007, as homebuilders, developers and related suppliers were affected by the downturn in the real estate markets. Commercial net charge-offs include $800 million due to the sale or transfer to held-for-sale of $1.3 billion in commercial loan balances during the fourth quarter.

Homebuilders and developers net charge-offs for 2008 were $812 million, or 40% of total commercial charge-offs. Excluding the homebuilder and developer portfolio, the commercial loan charge-offs to average commercial loans outstanding was 252 bp in 2008 with the most stress exhibited in the Eastern Michigan and South Florida regions and among auto dealers.

The ratio of consumer loan net charge-offs to average consumer loans outstanding increased to 208 bp in 2008 compared to 84 bp in 2007. Residential mortgage charge-offs increased to $243 million in 2008 compared to $43 million in 2007, reflecting increased foreclosure rates in the Bancorp s key lending markets coupled with an increase in severity of loss on mortgage loans. Florida, Michigan and Ohio continue to rank among the top states in total mortgage foreclosures. These foreclosures not only added to the volume of charge-offs, but also hampered the Bancorp s ability to recover the value of the homes collateralizing the mortgages as they contributed to declining home prices. Florida affiliates continue to experience the most stress and accounted for over half of the residential mortgage charge-offs in 2008. Home equity charge-offs increased to $205 million and 167 bp of average loans and continue to display distinct charge-off differences between lines and loans originated through the retail channel and those originated through brokered channels. Brokered home equity represented 50% of home equity charge-offs during 2008 despite representing only 19% of home equity lines and loans as of December 31, 2008. Excluding home equity lines and loans originated through brokered channels, home equity charge-offs to average home equity were 104 bp. Management responded to the performance of the brokered

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TABLE 32: SUMMARY OF CREDIT LOSS EXPERIENCE

For the years ended December 31 ($ in millions)	2008	2007	2006	2005	2004
Losses charged off:					
Commercial loans	**$(667)**	(121)	(131)	(99)	(95)
Commercial mortgage loans	**(618)**	(46)	(27)	(13)	(14)
Commercial construction loans	**(750)**	(29)	(7)	(5)	(7)
Commercial leases	**-**	(1)	(4)	(38)	(8)
Residential mortgage loans	**(243)**	(43)	(23)	(19)	(15)
Home equity	**(212)**	(106)	(65)	(60)	(52)
Automobile loans	**(168)**	(117)	(87)	(63)	(56)
Credit card	**(101)**	(54)	(36)	(46)	(35)
Other consumer loans and leases	**(32)**	(27)	(28)	(30)	(39)
Total losses	**(2,791)**	(544)	(408)	(373)	(321)
Recoveries of losses previously charged off:					
Commercial loans	**18**	12	24	24	14
Commercial mortgage loans	**5**	2	3	3	5
Commercial construction loans	**2**	-	-	1	-
Commercial leases	**1**	1	5	1	1
Residential mortgage loans	**-**	-	-	-	-
Home equity	**7**	9	9	10	10
Automobile loans	**34**	32	30	18	18
Credit card	**7**	8	5	5	6
Other consumer loans and leases	**7**	18	16	12	15
Total recoveries	**81**	82	92	74	69
Net losses charged off:					
Commercial loans	**(649)**	(109)	(107)	(75)	(81)
Commercial mortgage loans	**(613)**	(44)	(24)	(10)	(9)
Commercial construction loans	**(748)**	(29)	(7)	(4)	(7)
Commercial leases	**1**	-	1	(37)	(7)
Residential mortgage loans	**(243)**	(43)	(23)	(19)	(15)
Home equity	**(205)**	(97)	(56)	(50)	(42)
Automobile loans	**(134)**	(85)	(57)	(45)	(38)
Credit card	**(94)**	(46)	(31)	(41)	(29)
Other consumer loans and leases	**(25)**	(9)	(12)	(18)	(24)
Total net losses charged off	**$(2,710)**	(462)	(316)	(299)	(252)
Net charge-offs as a percent of average loans and leases (excluding held for sale):					
Commercial loans	**2.31%**	.49	.53	.41	.54
Commercial mortgage loans	**4.80**	.40	.25	.10	.12
Commercial construction loans	**12.80**	.51	.11	.08	.17
Commercial leases	**(.02)**	.01	(.03)	1.06	.21
Total commercial loans and leases	**3.99**	.43	.34	.35	.35
Residential mortgage loans	**2.47**	.48	.27	.23	.25
Home equity	**1.67**	.82	.46	.44	.44
Automobile loans	**1.56**	.83	.60	.53	.48
Credit card	**5.51**	3.55	3.65	5.65	3.92
Other consumer loans and leases	**2.10**	.83	.91	1.06	.98
Total consumer loans and leases	**2.08**	.84	.55	.57	.56
Total net losses charged off	**3.23%**	.61	.44	.45	.45

home equity portfolio by reducing originations in 2007 of this product by 64% compared to 2006 and, at the end of 2007, eliminating this channel of origination. In addition, management actively manages lines of credit and makes reductions in lending limits when it believes it is necessary based on FICO score deterioration and property devaluation. The ratio of automobile loan net charge-offs to average automobile loans was 156 bp for 2008, an increase of 73 bp compared to 2007 displaying an expected increase due to a shift in the portfolio to a higher percentage of used automobiles and an increase in loss severity due to increased market depreciation of used automobiles. The net charge-off ratio on credit card balances was 551 bp in 2008. Increases in the charge-off ratio over the previous two years reflects seasoning in the credit card portfolio and general economic conditions compared to 2007 and for 2006, due to increased personal bankruptcies in 2005 in anticipation of the changes in bankruptcy law. Management expects trends in the charge-off ratio on credit card balances to be consistent with general economic trends, such as unemployment and personal bankruptcy filings. The Bancorp employs a risk-adjusted pricing methodology to help ensure adequate compensation is received for those products that have higher credit costs.

Allowance for Credit Losses

The allowance for credit losses is comprised of the allowance for loan and lease losses and the reserve for unfunded commitments. The allowance for loan and lease losses provides coverage for probable and estimable losses in the loan and lease portfolio. The Bancorp evaluates the allowance each quarter to determine its adequacy to cover inherent losses. Several factors are taken into consideration in the determination of the overall allowance for loan and lease losses, including an unallocated component. These factors include, but are not limited to, the overall risk profile of the loan and lease portfolios, net charge-off experience, the extent of impaired loans and leases, the level of nonaccrual loans and leases, the level of 90 days past due loans and leases and the overall percentage level of the allowance for loan and lease losses. The Bancorp also considers overall asset quality trends, credit administration and portfolio management practices, risk identification practices, credit policy and underwriting practices, overall portfolio growth, portfolio concentrations and current national and local economic conditions that might impact the portfolio. More information on the allowance for loan and lease losses can be found in the Critical Accounting Policies section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

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TABLE 33: CHANGES IN ALLOWANCE FOR CREDIT LOSSES

For the years ended December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Balance, beginning of year	**$1,032**	847	814	785	770
Net losses charged off	**(2,710)**	(462)	(316)	(299)	(252)
Provision for loan and lease losses	**4,560**	628	343	330	268
Net change in reserve for unfunded commitments	**100**	19	6	(2)	(1)
Balance, end of year	**$2,982**	1,032	847	814	785
Components of allowance for credit losses:					
Allowance for loan and lease losses	**$2,787**	937	771	744	713
Reserve for unfunded commitments	**195**	95	76	70	72
Total allowance for credit losses	**$2,982**	1,032	847	814	785

In 2008, the Bancorp has not substantively changed any material aspect of its overall approach in the determination of the allowance for loan and lease losses and there have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. In addition to the allowance for loan and lease losses, the Bancorp maintains a reserve for unfunded commitments recorded in other liabilities in the Consolidated Balance Sheets. The methodology used to determine the adequacy of this reserve is similar to the Bancorp s methodology for determining the allowance for loan and lease losses. The provision for unfunded commitments is included in other noninterest expense in the Consolidated Statements of Income.

Certain inherent, but undetected losses are probable within the loan and lease portfolio. An unallocated component to the allowance for loan and lease losses is maintained to recognize the imprecision in estimating and measuring loss. The Bancorp s current methodology for determining this measure is based on historical loss rates, current credit grades, specific allocation on impaired commercial credits above specified thresholds and other qualitative adjustments. Approximately 81% of the required reserves come from the baseline historical loss rates, specific reserve estimates and current credit grades; while 19% comes from qualitative adjustments. As a result, the required reserves tend to slightly lag the deterioration in the portfolio due to the heavy reliance on realized historical losses and the credit grade rating process. The unallocated allowance as a percent of total portfolio loans and leases for the year ended December 31, 2008 was .33%, or 10% of the total allowance, compared to .06%, or 5% of the total allowance, as of December 31, 2007. The increase in the unallocated allowance compared to the prior year was a

result of the steep decline in real estate prices, market volatility in the second half of 2008 and economic deterioration in some of the Bancorp s lending markets, for which the deterioration had not yet been captured in the historical loss rates and where the extent of deterioration cannot be determined.

As shown in Table 34, the allowance for loan and lease losses as a percent of the total loan and lease portfolio increased to 3.31% at December 31, 2008, compared to 1.17% at December 31, 2007. Total allowance for loan and lease losses totaled $2.8 billion and $937 million as of December 31, 2008 and 2007, respectively. This increase is reflective of a number of factors including: the increase in commercial impaired loans which are individually reviewed and allowed for, increased estimated loss factors due to negative trends in overall delinquencies, increased loss estimates once a loan becomes delinquent due to deterioration in the real estate collateral values in some of the Bancorp s key lending markets and declines in general economic conditions that are used to determine an economic factor adjustment. These factors were the primary drivers of the increased reserve amounts for most of the Bancorp s loan categories.

Impaired commercial loans increased to $1.5 billion as of December 31, 2008 compared to $494 million as of December 31, 2007. Impaired commercial loans above specified thresholds require individual review to determine loan and lease reserves. In addition to the increased volume of impaired commercial loans, required loan and lease reserves on these loans were generally higher due to the deterioration in collateral values.

Delinquency trends have increased across most product lines and credit grades, leading to increases in expected loss rates and, therefore, increased reserve requirements for those products. In

TABLE 34: ATTRIBUTION OF ALLOWANCE FOR LOAN AND LEASE LOSSES TO PORTFOLIO LOANS AND LEASES

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004

Allowance attributed to:					
Commercial loans	**$824**	271	252	201	210
Commercial mortgage loans	**363**	135	95	78	73
Commercial construction loans	**252**	98	49	46	42
Residential mortgage loans	**388**	67	51	38	45
Consumer loans	**611**	287	247	183	160
Lease financing	**70**	32	29	56	47
Unallocated	**279**	47	48	142	136
Total allowance for loan and lease losses	**$2,787**	937	771	744	713
Portfolio loans and leases:					
Commercial loans	**$29,197**	24,813	20,831	19,253	16,107
Commercial mortgage loans	**12,502**	11,862	10,405	9,188	7,636
Commercial construction loans	**5,114**	5,561	6,168	6,342	4,347
Residential mortgage loans	**9,385**	10,540	8,830	7,847	7,366
Consumer loans	**23,509**	22,943	23,204	22,006	18,875
Lease financing	**4,436**	4,534	4,915	5,289	5,477
Total portfolio loans and leases	**$84,143**	80,253	74,353	69,925	59,808
Attributed allowance as a percent of respective portfolio loans:					
Commercial loans	**2.82%**	1.09	1.21	1.05	1.31
Commercial mortgage loans	**2.90**	1.14	.91	.85	.96
Commercial construction loans	**4.93**	1.77	.80	.72	.96
Residential mortgage loans	**4.13**	.63	.58	.49	.61
Consumer loans	**2.60**	1.25	1.06	.83	.85
Lease financing	**1.58**	.69	.59	1.06	.86
Unallocated (as a percent of total portfolio loans and leases)	**.33**	.06	.06	.20	.23
Total portfolio loans and leases	**3.31%**	1.17	1.04	1.06	1.19

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general, the increase in historical loss reserve factors was responsible for over half of the year-over-year increase in the allowance for loan and lease losses.

As mentioned, real estate price deterioration, as measured by the Home Price Index, was most prevalent in some of the key lending markets of the Bancorp. The deterioration in real estate values increased the expected loss once a loan becomes delinquent, particularly for residential mortgage and home equity loans with high loan-to-value ratios.

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

The Bancorp continually reviews its credit administration and loan and lease portfolio and makes changes based on the performance of its products. Over the past year, the Bancorp has reduced its lending to homebuilders and developers and borrowers with non-owner occupied real estate as collateral, eliminated brokered home equity production and engaged in significant loss mitigation strategies.

MARKET RISK MANAGEMENT

Market risk arises from the potential for market fluctuations in interest rates, foreign exchange rates and equity prices that may result in potential reductions in net income. Interest rate risk, a component of market risk, is the exposure to adverse changes in net interest income or financial position due to changes in interest rates. Management considers interest rate risk a prominent market risk in terms of its potential impact on earnings. Interest rate risk can occur for any one or more of the following reasons:

- Assets and liabilities may mature or reprice at different times;
- Short-term and long-term market interest rates may change by different amounts; or
- The expected maturity of various assets or liabilities may shorten or lengthen as interest rates change.

In addition to the direct impact of interest rate changes on net interest income, interest rates can indirectly impact earnings through their effect on loan demand, credit losses, mortgage originations, the value of servicing rights and other sources of the Bancorp s earnings. Stability of the Bancorp s net income is largely dependent upon the effective management of interest rate risk. Management continually reviews the Bancorp s balance sheet composition and earnings flows and models the interest rate risk, and possible actions to reduce this risk, given numerous possible future interest rate scenarios.

Earnings Simulation Model

The Bancorp employs a variety of measurement techniques to identify and manage its interest rate risk, including the use of an earnings simulation model to analyze the sensitivity of net interest income and certain noninterest items to changing interest rates. The model is based on contractual and assumed cash flows and repricing characteristics for all of the Bancorp s financial instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The model also includes senior management projections of the future volume and pricing of each of the product lines offered by the Bancorp as well as other pertinent assumptions. Actual results will differ from these simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

The Bancorp s Executive Asset Liability Committee (ALCO), which includes senior management representatives and is

accountable to the Risk and Compliance Committee of the Board of Directors, monitors and manages interest rate risk within Board approved policy limits. In addition to the risk management activities of ALCO, the Bancorp has a Market Risk Management function as part of ERM that provides independent oversight of market risk activities. The Bancorp s interest rate risk exposure is currently evaluated by measuring the anticipated change in net interest income and mortgage banking net revenue over 12-month and 24-month horizons assuming a 100 bp parallel ramped increase and a 200 bp parallel ramped increase in interest rates. The Fed Funds interest rate, targeted by the Federal Reserve at a range of 0% to 0.25%, is currently set at a level that would be negative in parallel ramped decrease scenarios; therefore, those scenarios were omitted from the interest rate risk analyses for December 31, 2008. In accordance with the current policy, the rate movements are assumed to occur over one year and are sustained thereafter.

Table 35 shows the Bancorp s estimated earnings sensitivity profile and ALCO policy limits as of December 31, 2008:

TABLE 35: ESTIMATED EARNINGS SENSITIVITY PROFILE

Change in Interest Rates (bp)	Change in Earnings (FTE) 12 Months	13 to 24 Months	ALCO Policy Limits 12 Months	13 to 24 Months
+200	(2.79)%	(1.67)	(5.00)	(7.00)
+100	(2.28)	(1.66)	-	-

Economic Value of Equity

The Bancorp also employs economic value of equity (EVE) as a measurement tool in managing interest rate risk. Whereas the earnings simulation highlights exposures over a relatively short time horizon, the EVE analysis incorporates all cash flows over the estimated remaining life of all balance sheet and derivative positions. The EVE of the balance sheet, at a point in time, is defined as the discounted present value of asset and derivative cash flows less the discounted value of liability cash flows. The sensitivity of EVE to changes in the level of interest rates is a measure of longer-term interest rate risk. EVE values only the current balance sheet and does not incorporate the growth assumptions used in the earnings simulation model. As with the earnings simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the transaction deposit portfolios. The following table shows the Bancorp s EVE sensitivity profile as of December 31, 2008:

TABLE 36: ESTIMATED EVE SENSITIVITY PROFILE

Change in Interest Rates (bp)	Change in EVE	ALCO Policy Limits
+200	(1.25)%	(20.0)
+100	(0.15)	
-25	(0.06)	

While an instantaneous shift in interest rates is used in this analysis to provide an estimate of exposure, the Bancorp believes that a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (e.g., the current fiscal year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships and changing product spreads that could mitigate the adverse impact of changes in interest rates. The earnings simulation and EVE analyses do not necessarily include certain actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

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Use of Derivatives to Manage Interest Rate Risk

An integral component of the Bancorp s interest rate risk management strategy is its use of derivative instruments to minimize significant fluctuations in earnings and cash flows caused by changes in market interest rates. Examples of derivative instruments that the Bancorp may use as part of its interest rate risk management strategy include interest rate swaps, interest rate floors, interest rate caps, forward contracts, principal only swaps, options and swaptions.

As part of its overall risk management strategy relative to its mortgage banking activity, the Bancorp enters into forward contracts accounted for as free-standing derivatives to economically hedge interest rate lock commitments that are also considered free-standing derivatives. In addition, the Bancorp also economically hedges its exposure to mortgage loans held for sale.

The Bancorp also establishes derivative contracts with major financial institutions to economically hedge significant exposures assumed in commercial customer accommodation derivative contracts. Generally, these contracts have similar terms in order to protect the Bancorp from market volatility. Credit risks arise from the possible inability of counterparties to meet the terms of their contracts, which the Bancorp minimizes through approvals, limits and monitoring procedures. The notional amount and fair values of these derivatives as of December 31, 2008 are included in Note 11 of the Notes to Consolidated Financial Statements.

Portfolio Loans and Leases and Interest Rate Risk

Although the Bancorp s portfolio loans and leases contain both fixed and floating/adjustable rate products, the rates of interest earned by the Bancorp on the outstanding balances are generally established for a period of time. The interest rate sensitivity of loans and leases is directly related to the length of time the rate earned is established. Table 37 summarizes the expected principal cash flows of the Bancorp s portfolio loans and leases as of December 31, 2008. Additionally, Table 38 displays a summary of expected principal cash flows occurring after one year, as of December 31, 2008.

Mortgage Servicing Rights and Interest Rate Risk

The net carrying amount of the MSR portfolio was $496 million and $613 million as of December 31, 2008 and 2007, respectively. The value of servicing rights can fluctuate sharply depending on changes in interest rates and other factors. Generally, as interest rates decline and loans are prepaid to take advantage of refinancing, the total value of existing servicing rights declines because no further servicing fees are collected on repaid loans. The Bancorp maintains a non-qualifying hedging strategy relative to its mortgage banking activity in order to manage a portion of the risk associated with changes in the value of its MSR portfolio as a result of changing interest rates.

Mortgage rates decreased during 2008 and had a pronounced decrease at the end of the year in response to the actions taken by the U.S. Treasury. This decrease in rates caused prepayment assumptions to increase and led to $207 million in temporary impairment during the year ended December 31, 2008 compared to the $22 million in temporary impairment in 2007. Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing rates. Temporary impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. Offsetting the mortgage servicing rights valuation, the Bancorp recognized net gains of $209 million and $29 million on its non-qualifying hedging strategy for the year ended December 31, 2008 and 2007, respectively. See Note 10 of the Notes to Consolidated Financial Statements for further discussion on servicing rights and the instruments used to hedge interest rate risk on mortgage servicing rights.

Foreign Currency Risk

The Bancorp enters into foreign exchange derivative contracts to economically hedge certain foreign denominated loans. The derivatives are classified as free-standing instruments with the revaluation gain or loss being recorded in other noninterest income in the Consolidated Statements of Income. The balance of the Bancorp s foreign denominated loans at December 31, 2008 and December 31, 2007 was approximately $307 million and $329 million, respectively. The Bancorp also enters into foreign

TABLE 37: PORTFOLIO LOAN AND LEASE PRINCIPAL CASH FLOWS

As of December 31, 2008 ($ in millions)	Less than 1 year	1-5 years	Greater than 5 years	Total
Commercial loans	$15,388	11,828	1,981	29,197
Commercial mortgage loans	4,814	5,460	2,228	12,502
Commercial construction loans	3,651	1,254	209	5,114
Commercial leases	584	1,626	1,456	3,666
Subtotal - commercial	24,437	20,168	5,874	50,479
Residential mortgage loans	3,047	3,617	2,721	9,385
Home equity	2,281	5,153	5,318	12,752
Automobile loans	3,133	4,916	545	8,594
Credit card	138	1,673	-	1,811
Other consumer loans and leases	520	577	25	1,122
Subtotal consumer	9,119	15,936	8,609	33,664
Total	$33,556	36,104	14,483	84,143

TABLE 38: PORTFOLIO LOAN AND LEASE PRINCIPAL CASH FLOWS OCCURRING AFTER ONE YEAR

	Interest Rate	
As of December 31, 2008 ($ in millions)	**Fixed**	**Floating or Adjustable**
Commercial loans	$3,047	10,762
Commercial mortgage loans	2,964	4,724
Commercial construction loans	178	1,285
Commercial leases	3,082	-
Subtotal commercial	9,271	16,771
Residential mortgage loans	3,492	2,846
Home equity	1,553	8,918
Automobile loans	5,419	42
Credit card	998	675
Other consumer loans and leases	597	5
Subtotal consumer	12,059	12,486
Total	$21,330	29,257

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TABLE 39: AGENCY RATINGS

As of February 23, 2009	Moody s	Standard and Poor s	Fitch	DBRS
Fifth Third Bancorp:				
Commercial paper	Prime-1	A-2	F1	R-1M
Senior debt	A2	A-	A	AAL
Subordinated debt	A3	BBB+	A-	A
Fifth Third Bank and Fifth Third Bank (Michigan):				
Short-term deposit	Prime-1	A1	F1	R-1H
Long-term deposit	A1	A	A+	AA
Senior debt	A1	A	A	AA
Subordinated debt	A2	A-	A-	AAL

exchange contracts for the benefit of commercial customers involved in international trade to hedge their exposure to foreign currency fluctuations. The Bancorp has internal controls in place to help ensure excessive risk is not being taken in providing this service to customers. These controls include an independent determination of currency volatility and credit equivalent exposure on these contracts, counterparty credit approvals and country limits.

LIQUIDITY RISK MANAGEMENT

The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand, unexpected deposit withdrawals and other contractual obligations. A summary of certain obligations and commitments to make future payments under contracts is included in Table 42. Mitigating liquidity risk is accomplished by maintaining liquid assets in the form of investment securities, maintaining sufficient unused borrowing capacity in the debt markets and delivering consistent growth in core deposits. Cash flows from estimated loan and lease repayment are included in Table 37. The estimated weighted-average life of the available-for-sale securities portfolio was 3.2 years at December 31, 2008, based on current prepayment expectations. Of the $14.3 billion of securities in the portfolio at December 31, 2008, $5.8 billion in principal and interest is expected to be received in the next 12 months and an additional $2.2 billion is expected to be received in the next 13 to 24 months. In addition to the securities portfolio, asset-driven liquidity is provided by the Bancorp s ability to sell or securitize loan and lease assets. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, the Bancorp has developed securitization and sale procedures for several types of interest-sensitive assets. A majority of the long-term, fixed-rate single-family residential mortgage loans underwritten according to FHLMC or FNMA guidelines are sold for cash upon origination. Additional assets such as jumbo fixed-rate residential mortgages, certain commercial loans, home equity loans, automobile loans and other consumer loans are also capable of being securitized or sold. For the year ended December 31, 2008 and 2007, loans totaling $15.7 billion and $12.2 billion, respectively, were securitized or sold.

Core deposits have historically provided the Bancorp with a sizeable source of relatively stable and low cost funds. The Bancorp s average core deposits and shareholders equity funded 65% of its average total assets during 2008. In addition to core deposit funding, the Bancorp also accesses a variety of other short-term and long-term funding sources, which include the use of various regional Federal Home Loan Banks as a

funding source. Certificates carrying a balance of $100,000 or more and deposits in the Bancorp s foreign branch located in the Cayman Islands are wholesale funding tools utilized to fund asset growth. Management does not rely on any one source of liquidity and manages availability in response to changing balance sheet needs.

The Bancorp has a shelf registration in place with the SEC permitting ready access to the public debt markets and qualifies as a well-known seasoned issuer under SEC rules. As of December 31, 2008, $4.4 billion of debt or other securities were available for issuance from this shelf registration under the current Bancorp s Board of Directors authorizations, however, due to current market disruptions, access to these markets may not be readily available. The Bancorp also has $16.2 billion of funding available for issuance through private offerings of debt securities pursuant to its bank note program and currently has approximately $17.9 billion of borrowing capacity available through secured borrowing sources including the Federal Home Loan Banks and Federal Reserve Banks. The Bancorp has approximately $1.3 billion of unsecured long-term debt and $2.8 billion of total long-term debt that will mature during 2009.

The Bancorp s senior debt ratings as of February 23, 2009 are summarized in Table 39, which indicate the Bancorp s strong capacity to meet financial commitments. * Additional information on senior debt credit ratings is as follows:

Moody s A2 rating is considered upper-medium-grade obligations and is the third highest ranking within its overall classification system;
Standard & Poor s A- rating indicates the obligor s capacity to meet its financial commitment is STRONG and is the third highest ranking within its overall classification system;

Fitch Ratings A rating is considered high credit quality and is the third highest ranking within its overall classification system; and

DBRS Ltd. s AAL rating is considered superior credit quality and is the second highest ranking within its overall classification system.

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

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

CAPITAL MANAGEMENT

Management, including the Bancorp s Board of Directors, regularly reviews the Bancorp s capital position to help ensure that it is appropriately positioned under various operating environments. In May 2008, Fifth Third Capital Trust VII, a wholly-owned non-consolidated subsidiary of the Bancorp, issued $400 million of Tier 1-qualifying trust preferred securities to third party investors and invested these proceeds in junior subordinated notes issued by the Bancorp. Due to the deterioration in credit trends over the past year and the uncertainty involving future economic trends, management carried out actions throughout 2008 to increase the Bancorp s capital position. During the second quarter of 2008, the Bancorp issued approximately $1 billion in Tier 1 capital in the form of convertible preferred shares. This issuance allowed the Bancorp to immediately meet its revised Tier I capital ratio targets of eight to nine percent. In addition, the Bancorp s Board of Directors reduced the dividend on its common stock to allow for further retention of capital, preserving over $580 million of capital in 2008 relative to the prior level, and nearly $1.0 billion in 2009. In 2008, the Bancorp paid dividends per common share of $0.75, a reduction from the $1.70 paid per common share in 2007.

On October 14, 2008, the U.S. Treasury announced a series of initiatives to strengthen market stability, improve the strength of financial institutions and enhance market liquidity. Among the initiatives, the U.S. Treasury created a voluntary CPP as part of its efforts to provide a firmer capital foundation for financial institutions and to increase credit availability to consumers and businesses. As part of the program, eligible financial institutions were able to sell equity interests to the U.S. Treasury in amounts equal to one to three percent of the institution s risk-weighted assets. These equity interests constitute Tier 1 capital. On December 31, 2008, the Bancorp issued $3.4 billion in senior preferred stock (Series F) and related warrants under the terms of the CPP to the U.S. Treasury. The CPP investment provided capital in excess of the Bancorp s previously planned levels, on terms the Bancorp believes are favorable to its investors.

At December 31, 2008, shareholders equity was $12.1 billion, compared to $9.2 billion at December 31, 2007. Tangible equity as a percent of tangible assets was 7.86% at December 31, 2008 and 6.14% at December 31, 2007. The increase in shareholders equity and tangible equity ratio from 2007 is primarily a result of the issuance of preferred stock during the second half of 2008.

The Federal Reserve Board established quantitative measures that assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements (risk-based capital ratios). Additionally, the guidelines define well-capitalized ratios for Tier 1 and total risk-based capital as 6% and 10%, respectively. The Bancorp exceeded these well-capitalized ratios for all periods presented. As of December 31, 2008, actions taken to bolster capital during the year increased the Bancorp s Tier 1 capital ratio to 10.59% and the total risk-based capital ratio to 14.78%. Management expects short-term capital ratios to remain elevated above management s target of eight to nine percent for Tier 1 capital ratio and 11.5% to 12.5% for total risk-based capital ratio.

Dividend Policy and Stock Repurchase Program

The Bancorp s common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain adequate capital levels and alternative investment opportunities. In 2008, the Bancorp paid dividends per common share of $0.75, a decrease from the $1.70 paid in 2007. The reduction in quarterly common dividend was in response to the difficult operating environment and the additional capital that may be needed. The Bancorp s quarterly dividend per common share for the fourth quarter 2008 was $0.01.

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

The Bancorp s repurchase of equity securities is shown in Table 41. On May 21, 2007, the Bancorp announced that its Board of Directors had authorized management to purchase 30 million shares of the Bancorp s common stock through the open market or in any private transaction. The authorization does not include specific price targets or an expiration date. Under the agreement with the U.S. Treasury, as part of the CPP, the Bancorp is restricted in its repurchases of its common stock. This restriction is in effect until the earlier of December 31, 2011 or the date upon which the Series F senior preferred shares are redeemed in whole or transferred to an unaffiliated third party.

TABLE 40: CAPITAL RATIOS

As of December 31 ($ in millions)	**2008**	2007	2006	2005	2004
Average equity as a percent of average assets	**8.78%**	9.35	9.32	9.06	9.34
Tangible equity as a percent of tangible assets	**7.86**	6.14	7.95	7.23	8.51
Tangible common equity as a percent of tangible assets	**4.23**	6.14	7.95	7.22	8.50
Tier I capital	**$11,924**	8,924	8,625	8,209	8,522
Total risk-based capital	**16,646**	11,733	11,385	10,240	10,176
Risk-weighted assets	**112,570**	115,529	102,823	98,293	82,633
Regulatory capital ratios:					
Tier I capital	**10.59%**	7.72	8.39	8.35	10.31
Total risk-based capital	**14.78**	10.16	11.07	10.42	12.31
Tier I leverage	**10.27**	8.50	8.44	8.08	8.89

TABLE 41: SHARE REPURCHASES

For the years ended December 31	**2008**	2007	2006
Shares authorized for repurchase at January 1	**19,201,518**	15,807,045	17,846,953
Additional authorizations	**-**	30,000,000	-
Shares repurchases *(a)*	**-**	(26,605,527)	(2,039,908)
Shares authorized for repurchase at December 31	**19,201,518**	19,201,518	15,807,045
Average price paid per share	**N/A**	40.70	39.72

(a) Excludes 63,270, 365,867 and 357,612 shares repurchased during 2008, 2007 and 2006, respectively, in connection with various employee compensation plans. These repurchases are not included in the calculation for average price paid and do not count against the maximum number of shares that may yet be repurchased under the Board of Directors authorization.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

In the ordinary course of business, the Bancorp enters into financial transactions to extend credit and various forms of commitments and guarantees that may be considered off-balance sheet arrangements. These transactions involve varying elements of market, credit and liquidity risk. The nature and extent of these transactions are provided in Note 15 of the Notes to Consolidated Financial Statements. In addition, the Bancorp uses conduits, asset securitizations and certain defined guarantees to provide a source of funding. The use of these investment vehicles involves differing degrees of risk. A summary of these transactions is provided below.

Through December 31, 2008 and 2007, the Bancorp had transferred, subject to credit recourse, certain primarily floating-rate, short-term, investment grade commercial loans to an unconsolidated QSPE that is wholly owned by an independent third-party. The outstanding balance of these loans at December 31, 2008 and 2007 was $1.9 billion and $3.0 billion, respectively. These loans may be transferred back to the Bancorp upon the occurrence of certain specified events. These events include borrower default on the loans transferred, bankruptcy preferences initiated against underlying borrowers, ineligible loans transferred by the Bancorp to the QSPE and the inability of the QSPE to issue commercial paper. The maximum amount of credit risk in the event of nonperformance by the underlying borrowers is approximately equivalent to the total outstanding balance. During the years ended December 31, 2008 and 2007, the QSPE did not transfer any loans back to the Bancorp as a result of a credit event.

The QSPE issues commercial paper and uses the proceeds to fund the acquisition of commercial loans transferred to it by the Bancorp. The ability of the QSPE to issue commercial paper is a function of general market conditions and the credit rating of the liquidity provider. In the event the QSPE is unable to issue commercial paper, the Bancorp has agreed to provide liquidity support to the QSPE in the form of purchases of commercial paper, a line of credit to the QSPE and the repurchase of assets from the QSPE. As of December 31, 2008 and 2007, the liquidity asset purchase agreement was $2.8 billion and $5.0 billion, respectively. During 2008, dislocation in the short-term funding market caused the QSPE difficulty in obtaining sufficient funding through the issuance of commercial paper. As a result, the Bancorp provided liquidity support to the QSPE during 2008 through purchases of commercial paper, a line of credit to the QSPE and the repurchase of assets from the QSPE under the liquidity asset purchase agreement. As of December 31, 2008, the Bancorp held approximately $143 million of asset-backed commercial paper issued by the QSPE, representing 7% of the total commercial paper issued by the QSPE. Due to continued difficulty in obtaining sufficient funding through the issuance of commercial paper in the first quarter of 2009, the Bancorp held approximately $836 million of asset-backed commercial paper issued by the QSPE,

representing 43% of the total commercial paper issued by the QSPE.

During 2008, the Bancorp repurchased $686 million of commercial loans at par from the QSPE under the liquidity asset purchase agreement. Fair value adjustment charges of $3 million were recorded on these loans upon repurchase. As of December 31, 2008, there were no outstanding balances on the line of credit from the Bancorp to the QSPE. At December 31, 2008 and 2007, the Bancorp s loss reserve related to the liquidity support and credit enhancement provided to the QSPE was $37 million and $18 million, respectively, and was recorded in other liabilities in the Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of commercial loans held in its loan portfolio. For further information on the QSPE, see Note 10 of the Notes to Consolidated Financial Statements.

The Bancorp utilizes securitization trusts, formed by independent third parties to facilitate the securitization process of residential mortgage loans, certain automobile loans and other consumer loans. During 2008 the Bancorp recognized pretax gains of $15 million on the sale of $2.7 billion of automobile loans in three separate transactions. Each transaction isolated the related loans through the use of a securitization trust or a conduit, formed as QSPEs, to facilitate the securitization process in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The QSPEs issue asset-backed securities with varying levels of credit subordination and payment priority. The investors in these securities have no recourse to the Bancorp s other assets for failure of debtors to pay when due. During 2008, the Bancorp did not repurchase any previously transferred automobile loans from the QSPEs. For further information on these automobile securitizations, see Note 10 of the Notes to Consolidated Financial Statements.

At December 31, 2008 and 2007, the Bancorp had provided credit recourse on residential mortgage loans sold to unrelated third parties of approximately $1.3 billion and $1.5 billion, respectively. In the event of any customer default, pursuant to the credit recourse provided, the Bancorp is required to reimburse the third party. The maximum amount of credit risk in the event of nonperformance by the underlying borrowers is equivalent to the total outstanding balance. For further information on the residential mortgage loans sold with credit recourse, see Note 10 of the Notes to Consolidated Financial Statements.

For certain mortgage loans originated by the Bancorp, borrowers may be required to obtain Private Mortgage Insurance (PMI) provided by third-party insurers. In some instances, these PMI insurers cede a portion of the PMI premiums to the Bancorp, and the Bancorp provides reinsurance coverage within a specified range of the total PMI coverage. The Bancorp s reinsurance coverage typically ranges from 5% to 10% of the total PMI coverage. The Bancorp s maximum exposure in the event of nonperformance by the underlying borrowers is equivalent to the Bancorp s total outstanding reinsurance coverage, which was $170 million at December 31, 2008. As of December 31, 2008, the Bancorp maintained a reserve of approximately $13 million related to exposures within the reinsurance portfolio. No reserve was deemed necessary as of December 31, 2007.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The Bancorp has certain obligations and commitments to make future payments under contracts. The aggregate contractual obligations and commitments at December 31, 2008 are shown in Table 42. As of December 31, 2008, the Bancorp has unrecognized tax benefits that, if recognized, would impact the effective tax rate in future periods. Due to the uncertainty of the

amounts to be ultimately paid as well as the timing of such payments, all uncertain tax liabilities that have not been paid have been excluded from the Contractual Obligations and Other Commitments table. Further detail on the impact of income taxes is located in Note 22 of the Notes to Consolidated Financial Statements.

TABLE 42: CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

As of December 31, 2008 ($ in millions)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Contractually obligated payments due by period:					
Deposits without a stated maturity *(a)*	$52,412	-	-	-	52,412
Time deposits *(b)*	19,054	816	55	6,276	26,201
Long-term debt *(c)*	2,785	855	2,336	7,609	13,585
Short-term borrowings *(d)*	10,246	-	-	-	10,246
Forward contracts to sell mortgage loans *(e)*	3,235	-	-	-	3,235
Noncancelable lease obligations *(f)*	90	161	143	543	937
Partnership investment commitments *(g)*	302	-	-	-	302
Pension obligations *(h)*	21	38	36	78	173
Capital expenditures *(i)*	68	-	-	-	68
Purchase obligations *(j)*	27	43	11	-	81
Total contractually obligated payments due by period	$88,240	1,913	2,581	14,506	107,240
Other commitments by expiration period:					
Commitments to extend credit *(k)*	$18,233	31,237	-	-	49,470
Letters of credit *(l)*	3,303	4,066	1,178	404	8,951
Total other commitments by expiration period	$21,536	35,303	1,178	404	58,421

(a) Includes demand, interest checking, savings, money market and foreign office deposits. For additional information, see the Deposits discussion in the Balance Sheet Analysis section of Management s Discussion and Analysis.
(b) Includes other time and certificates $100,000 and over. For additional information, see the Deposits discussion in the Balance Sheet Analysis section of Management s Discussion and Analysis.
(c) In the banking industry, interest-bearing obligations are principally used to fund interest-earning assets. As such, interest charges on contractual obligations were excluded from reported amounts, as the potential cash outflows would have corresponding cash inflows from interest-earning assets. See Note 14 of the Notes to Consolidated Financial Statements for additional information on these debt instruments.
(d) Includes federal funds purchased and borrowings with an original maturity of less than one year. For additional information, see Note 13 of the Notes to Consolidated Financial Statements.
(e) See Note 11 of the Notes to Consolidated Financial Statements for additional information on forward contracts to sell mortgage loans.
(f) Includes both operating and capital leases.
(g) Includes low-income housing, historic tax and venture capital partnership investments.
(h) See Note 23 of the Notes to Consolidated Financial Statements for additional information on pension obligations.
(i) Includes commitments to various general contractors for work related to banking center construction.
(j) Represents agreements to purchase goods or services.
(k) Commitments to extend credit are agreements to lend, typically having fixed expiration dates or other termination clauses that may require payment of a fee. Many of the commitments to extend credit may expire without being drawn upon. The total commitment amounts do not necessarily represent future cash flow requirements.
(l) Letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party.

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MANAGEMENT S ASSESSMENT AS TO THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The management of Fifth Third Bancorp is responsible for establishing and maintaining adequate internal control, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Bancorp s management assessed the effectiveness of the Bancorp s internal control over financial reporting as of December 31, 2008. Management s assessment is based on the criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and was designed to provide reasonable assurance that the Bancorp maintained effective internal control over financial reporting as of December 31, 2008. Based on this assessment, management believes that the Bancorp maintained effective internal control over financial reporting as of December 31, 2008. The Bancorp s independent registered public accounting firm, that audited the Bancorp s consolidated financial statements included in this annual report, has issued an audit report on our internal control over financial reporting as of December 31, 2008. This report appears on page 55 of the annual report.

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

Kevin T. Kabat
President and Chief Executive Officer
February 27, 2009

Ross J. Kari
Executive Vice President and Chief Financial Officer
February 27, 2009

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REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Fifth Third Bancorp:

We have audited the internal control over financial reporting of Fifth Third Bancorp and subsidiaries (the Bancorp) as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bancorp s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Assessment as to the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bancorp s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Bancorp and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

Cincinnati, Ohio

February 27, 2009

To the Shareholders and Board of Directors of Fifth Third Bancorp:

We have audited the accompanying consolidated balance sheets of Fifth Third Bancorp and subsidiaries (the Bancorp) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Bancorp s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fifth Third Bancorp and subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bancorp s internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2009 expressed an unqualified opinion on the Bancorp s internal control over financial reporting.

Cincinnati, Ohio

February 27, 2009

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CONSOLIDATED BALANCE SHEETS

As of December 31 ($ in millions, except share data)	**2008**	2007
Assets		
Cash and due from banks	**$2,739**	2,660
Available-for-sale and other securities *(a)*	**12,728**	10,677
Held-to-maturity securities *(b)*	**360**	355
Trading securities	**1,191**	171
Other short-term investments	**3,578**	620
Loans held for sale *(c)*	**1,452**	4,329
Portfolio loans and leases:		
Commercial loans	**29,197**	24,813
Commercial mortgage loans	**12,502**	11,862
Commercial construction loans	**5,114**	5,561
Commercial leases	**3,666**	3,737
Residential mortgage loans *(d)*	**9,385**	10,540
Home equity	**12,752**	11,874
Automobile loans	**8,594**	9,201
Credit card	**1,811**	1,591
Other consumer loans and leases	**1,122**	1,074
Portfolio loans and leases	**84,143**	80,253
Allowance for loan and lease losses	**(2,787)**	(937)
Portfolio loans and leases, net	**81,356**	79,316
Bank premises and equipment	**2,494**	2,223
Operating lease equipment	**463**	353
Goodwill	**2,624**	2,470
Intangible assets	**168**	147
Servicing rights	**499**	618
Other assets	**10,112**	7,023
Total Assets	**$119,764**	110,962
Liabilities		
Deposits:		
Demand	**$15,287**	14,404
Interest checking	**13,826**	15,254
Savings	**16,063**	15,635
Money market	**4,689**	6,521
Other time	**14,350**	11,440
Certificates - $100,000 and over	**11,851**	6,738
Foreign office and other	**2,547**	5,453
Total deposits	**78,613**	75,445
Federal funds purchased	**287**	4,427
Other short-term borrowings	**9,959**	4,747
Accrued taxes, interest and expenses	**2,029**	2,427
Other liabilities	**3,214**	1,898
Long-term debt	**13,585**	12,857
Total Liabilities	**107,687**	101,801
Shareholders Equity		
Common stock *(e)*	**1,295**	1,295
Preferred stock *(f)*	**4,241**	9
Capital surplus *(g)*	**848**	1,779
Retained earnings	**5,824**	8,413
Accumulated other comprehensive income (loss)	**98**	(126)
Treasury stock	**(229)**	(2,209)
Total Shareholders Equity	**12,077**	9,161
Total Liabilities and Shareholders Equity	**$119,764**	110,962

(a) Amortized cost: ***December 31, 2008 - $12,550*** *and December 31, 2007 - $10,821*
(b) Market values: ***December 31, 2008 - $360*** *and December 31, 2007 - $355*
(c) Includes $881 million of residential mortgage loans held for sale measured at fair value at December 31, 2008.
(d) Includes $7 million of residential mortgage loans held for investment measured at fair value at December 31, 2008.

(e) *Common shares: Stated value $2.22 per share; authorized 2,000,000,000; outstanding at* ***December 31, 2008 - 577,386,612 (excludes 6,040,492 treasury shares)*** *and December 31, 2007 - 532,671,925 (excludes 51,516,339 treasury shares).*

(f) *317,680 shares of undesignated no par value preferred stock are authorized of which none had been issued; 7,250 shares of 8.0% cumulative Series D convertible (at $23.5399 per share) perpetual preferred stock with a stated value of $1,000 per share, which were issued and outstanding at December 31, 2007 and repurchased for $22 million and retired on November 26, 2008; 2,000 shares of 8.0% cumulative Series E perpetual preferred stock with a stated value of $1,000 per share, which were issued and outstanding at December 31, 2007 and repurchased for $6 million and retired on November 26, 2008; 5.0% cumulative Series F perpetual preferred stock with a $25,000 liquidation preference: 136,320 issued and outstanding at December 31, 2008; 8.5% non-cumulative Series G convertible (into 2,159.8272 common shares) perpetual preferred stock with a $25,000 liquidation preference: 46,000 authorized, 44,300 issued and outstanding at December 31, 2008.*

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

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 ($ in millions, except per share data)	**2008**	2007	2006
Interest Income			
Interest and fees on loans and leases	**$4,935**	5,418	5,000
Interest on securities	**660**	590	934
Interest on other short-term investments	**13**	19	21
Total interest income	**5,608**	6,027	5,955
Interest Expense			
Interest on deposits	**1,289**	2,007	1,910
Interest on other short-term borrowings	**248**	324	402
Interest on long-term debt	**557**	687	770
Total interest expense	**2,094**	3,018	3,082
Net Interest Income	**3,514**	3,009	2,873
Provision for loan and lease losses	**4,560**	628	343
Net Interest Income (Loss) After Provision for Loan and Lease Losses	**(1,046)**	2,381	2,530
Noninterest Income			
Electronic payment processing revenue	**912**	826	717
Service charges on deposits	**641**	579	517
Corporate banking revenue	**444**	367	318
Investment advisory revenue	**353**	382	367
Mortgage banking net revenue	**199**	133	155
Other noninterest income	**363**	153	299
Securities gains (losses), net	**(86)**	21	(364)
Securities gains - non-qualifying hedges on mortgage servicing rights	**120**	6	3
Total noninterest income	**2,946**	2,467	2,012
Noninterest Expense			
Salaries, wages and incentives	**1,337**	1,239	1,174
Employee benefits	**278**	278	292
Net occupancy expense	**300**	269	245
Payment processing expense	**274**	244	184
Technology and communications	**191**	169	141
Equipment expense	**130**	123	116
Goodwill impairment	**965**	-	-
Other noninterest expense	**1,089**	989	763
Total noninterest expense	**4,564**	3,311	2,915
Income (Loss) Before Income Taxes and Cumulative Effect	**(2,664)**	1,537	1,627
Applicable income tax expense (benefit)	**(551)**	461	443
Income (Loss) Before Cumulative Effect	**(2,113)**	1,076	1,184
Cumulative effect of change in accounting principle, net of tax *(a)*	**-**	-	4
Net Income (Loss)	**(2,113)**	1,076	1,188
Dividends on preferred stock	**67**	1	-
Net Income (Loss) Available to Common Shareholders	**$(2,180)**	1,075	1,188
Earnings Per Share	**$(3.94)**	2.00	2.14
Earnings Per Diluted Share	**$(3.94)**	1.99	2.13

(a) Reflects a benefit of $4 million (net of $2 million of tax) for the adoption of SFAS No. 123(R) as of January 1, 2006.

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

($ in millions, except per share data)	Common Stock	Preferred Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2005	$1,295	9	1,827	8,007	(413)	(1,279)	9,446
Net income				1,188			1,188
Other comprehensive income					288		288
Comprehensive income							1,476
Cumulative effect of change in accounting for pension and other postretirement obligations					(54)		(54)
Cash dividends declared:							
Common stock at $1.58 per share				(880)			(880)
Preferred stock				(1)			(1)
Shares acquired for treasury						(82)	(82)
Stock-based compensation expense			76	1			77
Impact of cumulative effect of change in accounting principle			(6)				(6)
Restricted stock grants			(45)			45	-
Stock-based awards exercised, including treasury shares issued			(49)			84	35
Loans repaid related to the exercise of stock-based awards, net			8				8
Change in corporate tax benefit related to stock-based compensation			(1)				(1)
Other			2	2			4
Balance at December 31, 2006	1,295	9	1,812	8,317	(179)	(1,232)	10,022
Net income				1,076			1,076
Other comprehensive income					53		53
Comprehensive income							1,129
Cash dividends declared:							
Common stock at $1.70 per share				(914)			(914)
Preferred stock				(1)			(1)
Shares acquired for treasury						(1,084)	(1,084)
Stock-based compensation expense			60	1			61
Impact of cumulative effect of change in accounting principle				(98)			(98)
Restricted stock grants			(59)			59	-
Stock-based awards exercised, including treasury shares issued			(39)			86	47
Loans repaid related to the exercise of stock-based awards, net			2				2
Change in corporate tax benefit related to stock-based compensation			2				2
Employee stock ownership through benefit plans				38		(38)	-
Impact of diversification of nonqualified deferred compensation plan				(8)			(8)
Other			1	2			3
Balance at December 31, 2007	1,295	9	1,779	8,413	(126)	(2,209)	9,161
Net loss				**(2,113)**			**(2,113)**
Other comprehensive income					**224**		**224**
Comprehensive loss							**(1,889)**
Cash dividends declared:							
Common stock at $0.75 per share				**(413)**			**(413)**
Preferred stock				**(48)**			**(48)**
Dividends on redemption of preferred shares				**(19)**			**(19)**
Issuance of preferred shares, Series G		**1,072**					**1,072**
Issuance of preferred shares, Series F		**3,169**	**239**				**3,408**
Shares issued in business combinations			**(1,071)**			**1,841**	**770**
Retirement of preferred shares, Series D, E		**(9)**					**(9)**
Stock-based compensation expense			**56**	**1**			**57**
Restricted stock grants			**(136)**			**136**	**-**
Stock-based awards exercised, including treasury shares issued			**(2)**			**2**	**-**
Loans repaid related to the exercise of stock-based awards, net			**4**				**4**
Change in corporate tax benefit related to stock-based compensation			**(16)**				**(16)**
Other			**(5)**	**3**		**1**	**(1)**
Balance at December 31, 2008	**$1,295**	**4,241**	**848**	**5,824**	**98**	**(229)**	**12,077**

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ in millions)	**2008**	2007	2006
Operating Activities			
Net Income (loss)	**$(2,113)**	1,076	1,188
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan and lease losses	**4,560**	628	343
Cumulative effect of change in accounting principle, net of tax	**-**	-	(4)
Depreciation, amortization and accretion	**8**	367	399
Stock-based compensation expense	**57**	61	77
Benefit for deferred income taxes	**(1,140)**	(178)	(21)
Realized securities gains	**(41)**	(16)	(44)
Realized securities losses	**127**	2	408
Realized securities gains - non-qualifying hedges on mortgage servicing rights	**(120)**	(6)	(3)
Provision (recovery) for mortgage servicing rights	**207**	22	(19)
Net (gains) losses on sales of loans	**(47)**	112	4
Capitalized mortgage servicing rights	**(195)**	(207)	(135)
Loss on recalculation of the timing of tax benefits on leveraged leases	**130**	-	-
Impairment charges on goodwill	**965**	-	-
Loans originated for sale, net of repayments	**(11,527)**	(13,125)	(8,671)
Proceeds from sales of loans held for sale	**11,273**	11,027	8,812
Decrease (increase) in trading securities	**134**	16	(70)
(Increase) decrease in other assets	**(454)**	86	(1,421)
Increase (decrease) in accrued taxes, interest and expenses	**925**	194	(31)
Excess tax benefit related to stock-based compensation	**-**	(4)	-
Increase (decrease) in other liabilities	**355**	(741)	642
Net Cash Provided by (Used In) Operating Activities	**3,104**	(686)	1,454
Investing Activities			
Proceeds from sales of available-for-sale securities	**7,226**	2,071	12,568
Proceeds from calls, paydowns and maturities of available-for-sale securities	**67,883**	13,468	3,033
Purchases of available-for-sale securities	**(76,317)**	(15,541)	(4,676)
Proceeds from calls, paydowns and maturities of held-to-maturity securities	**3**	11	38
Purchases of held-to-maturity securities	**(11)**	(11)	(5)
(Increase) decrease in other short-term investments	**(2,910)**	224	(675)
Net increase in loans and leases	**(6,553)**	(6,181)	(5,145)
Proceeds from sales of loans	**5,216**	745	540
Increase in operating lease equipment	**(142)**	(172)	(77)
Purchases of bank premises and equipment	**(410)**	(459)	(443)
Proceeds from disposal of bank premises and equipment	**34**	46	60
Net cash acquired (paid) in business combinations	**66**	(230)	(5)
Net Cash (Used In) Provided by Investing Activities	**(5,915)**	(6,029)	5,213
Financing Activities			
(Decrease) increase in core deposits	**(2,820)**	2,225	1,467
Increase in certificates - $100,000 and over, including other foreign office	**1,927**	2,101	479
(Decrease) increase in federal funds purchased	**(4,352)**	3,006	(3,902)
Increase (decrease) in other short-term borrowings	**4,478**	1,951	(1,462)
Proceeds from issuance of long-term debt	**2,157**	4,801	3,731
Repayment of long-term debt	**(2,272)**	(5,494)	(6,441)
Purchases of treasury stock	**-**	(1,084)	(82)
Issuance of preferred stock, series F, G	**4,480**	-	-
Payment of cash dividends	**(687)**	(898)	(867)
Retirement of preferred shares, series D, E	**(9)**	-	-
Dividends on redemption of preferred shares, series D, E	**(19)**	-	-
Exercise of stock-based awards, net	**4**	49	43
Excess tax benefit related to stock-based compensation	**-**	4	-
Other, net	**3**	9	2
Net Cash Provided by (Used In) Financing Activities	**2,890**	6,670	(7,032)
Increase (Decrease) in Cash and Due from Banks	**79**	(45)	(365)
Cash and Due from Banks at Beginning of Year	**2,660**	2,705	3,070
Cash and Due from Banks at End of Year	**$2,739**	2,660	2,705
Supplemental Cash Flow Information			

Cash Payments			
Interest	**$2,053**	2,996	3,051
Income taxes	**416**	535	489
Noncash Items			
Transfers of loans to securities	**790**	-	-
Transfers of portfolio loans to held-for-sale loans	**532**	1,982	-
Transfers of held-for-sale loans to portfolio loans	**1,692**	782	138
Business Acquisitions:			
Fair value of tangible assets acquired (noncash)	**4,368**	2,446	6
Goodwill and identifiable intangible assets acquired	**1,194**	297	17
Liabilities assumed	**(4,858)**	(2,513)	(18)
Common stock issued	**(770)**	-	-

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations

Fifth Third Bancorp (Bancorp), an Ohio corporation, conducts its principal lending, deposit gathering, transaction processing and service advisory activities through its banking and non-banking subsidiaries from banking centers located throughout the Midwestern and Southeastern regions of the United States.

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Securities

Securities are classified as held-to-maturity, available-for-sale or trading on the date of purchase. Only those securities which management has the intent and ability to hold to maturity and are classified as held-to-maturity are reported at amortized cost. 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. The Bancorp s management has evaluated the securities in an unrealized loss position in the available-for-sale portfolio and maintains the intent and ability to hold these securities to the earlier of the recovery of the losses or maturity. Securities are classified as trading when bought and held principally for the purpose of selling them in the near term. Available-for-sale and trading securities are reported at fair value with unrealized gains and losses, net of related deferred income taxes, included in other comprehensive income and other noninterest income, respectively. The fair value of a security is determined based on quoted market prices. If quoted market prices are not available, fair value is determined based on quoted prices of similar instruments or discounted cash flow models that incorporate market inputs and assumptions including discount rates, prepayment speeds, and loss rates. Realized securities gains or losses are reported within noninterest income in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security s performance, the creditworthiness of the issuer and management s intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within noninterest income in the Consolidated Statements of Income.

Loans and Leases

Interest income on loans and leases is based on the principal balance outstanding computed using the effective interest

method. The accrual of interest income for commercial loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due. Such loans are also placed on nonaccrual status when the principal or interest is past due ninety days or more, unless the loan is well secured and in the process of collection. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is charged against income and the loan is accounted for on the cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan is returned to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement or when the loan is both well secured and in the process of collection. Consumer loans and revolving lines of credit for equity lines that have principal and interest payments that have become past due one hundred and twenty days and residential mortgage loans and credit cards that have principal and interest payments that have become past due one hundred and eighty days are charged off to the allowance for loan and lease losses. Commercial loans above a specified threshold are subject to individual review to identify charge-offs. Refer to the Allowance for Loan and Lease Losses below for further discussion.

A loan is accounted for as a troubled debt restructuring if the Bancorp, for economic or legal reasons related to the borrowers financial difficulties, grants a concession to the borrower that it would not otherwise consider. A troubled debt restructuring typically involves a modification of terms such as a reduction of the stated interest rate or face amount of the loan, a reduction of accrued interest, or an extension of the maturity date(s) at a stated interest rate lower than the current market rate for a new loan with similar risk. The Bancorp measures the impairment loss of a troubled debt restructuring based on the difference between the original loan s carrying amount and the present value of expected future cash flows discounted at the original, contractual rate of the loan. Troubled debt restructurings remain on nonaccrual status until a six-month payment history is sustained.

Loan and lease origination and commitment fees and direct loan and lease origination costs are deferred and the net amount is amortized over the estimated life of the related loans, leases or commitments as a yield adjustment.

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, less unearned income. Interest income on direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment. Interest income on leveraged leases is recognized over the term of the lease to achieve a constant rate of return on the outstanding investment in the lease, net of the related deferred income tax liability, in the years in which the net investment is positive.

Conforming fixed residential mortgage loans are typically classified as held for sale upon origination based upon management s intent to sell all the production of these loans. The Bancorp elected on January 1, 2008 to measure residential mortgage loans held for sale at fair value in accordance with SFAS No. 159. The election was prospective, at the instrument level, for residential mortgage loans that have a designation as held for sale on the day the specific loan closes. Existing residential mortgage loans held for sale as of December 31, 2007 were not included in the fair value option election and were valued at the lower of cost or market. All other loans held for sale continue to be valued at the lower of cost or market. For residential mortgage loans held for sale, fair value is estimated based upon mortgage-backed securities prices and spreads to those prices or, for certain loans, discounted cash flow models that may incorporate the anticipated portfolio composition, credit spreads of asset-backed securities with similar collateral, and market conditions. These fair value

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

marks are recorded to income in mortgage banking revenue. The Bancorp generally has commitments to sell residential mortgage loans held for sale in the secondary market. Gains or losses on sales are recognized in mortgage banking net revenue upon delivery.

Impaired loans and leases 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.

Other Real Estate Owned

Other real estate owned (OREO), which is included in other assets, represents property acquired through foreclosure or other proceedings. OREO is carried at the lower of cost or fair value, less costs to sell. All property is periodically evaluated and reductions in carrying value are recognized in other noninterest expense in the Consolidated Statements of Income.

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.

Larger commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. When individual loans are impaired, allowances are allocated based on management s estimate of the borrower s ability to repay the loan given the availability of collateral, other sources of cash flow, as well as evaluation of legal options available to the Bancorp. The review of individual loans includes those loans that are impaired as provided in SFAS No. 114. 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, 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 loss rates are applied to commercial loans, which 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 loans, are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks. Allowances are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history by loan category.

Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management s judgment, are necessary to reflect losses inherent in the portfolio. Factors that management considers in the analysis include the effects of the national and local economies; trends in the nature and volume of delinquencies, charge-offs and nonaccrual loans; changes in 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 loss when evaluating allowances for individual loans or pools of loans.

Loans acquired by the Bancorp through a purchase business combination are evaluated for possible 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.

In the current year, the Bancorp has not substantively changed any material aspect to its overall approach to determining its allowance for loan and lease losses. There have been no material changes in criteria or estimation techniques as compared to prior periods that impacted the determination of the current period allowance for loan and lease losses.

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 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 Consolidated Statements of Income.

Loan Sales and Securitizations

When the Bancorp sells loans through either securitizations or individual loan sales in accordance with its investment policies, it may obtain one or more subordinated tranches, servicing rights, interest-only strips, credit recourse, other residual interests and in some cases, a cash reserve account, all of which are considered interests that continue to be held by the Bancorp in the securitized or sold loans. Gains or losses on sale or securitization of the loans depend in part on the previous carrying amount of the financial assets sold or securitized. At the date of transfer, obtained servicing rights are recorded at fair value and the remaining carrying value of the transferred financial assets is allocated between the assets sold and remaining interests that continue to be held by the Bancorp based on their relative fair values at the date of sale or securitization. To obtain fair values, quoted market prices are used, if available. If quotes are not available for interests that continue to be held by the Bancorp, the Bancorp calculates fair value based on the present value of future expected cash flows using management s best estimates for the key assumptions, including credit losses, prepayment speeds,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

forward yield curves and discount rates commensurate with the risks involved. Gain or loss on sale or securitization of loans is reported as a component of noninterest income in the Consolidated Statements of Income. Interests that continue to be held by the Bancorp from securitized or sold loans, excluding servicing rights, are carried at fair value. Adjustments to fair value for interests that continue to be held by the Bancorp classified as available-for-sale securities are included in accumulated other comprehensive income in the Consolidated Balance Sheets or in noninterest income in the Consolidated Statements of Income if the fair value has declined below the carrying amount and such decline has been determined to be other-than-temporary. Adjustments to fair value for interests that continue to be held by the Bancorp classified as trading securities are recorded within other noninterest income in the Consolidated Statements of Income.

Servicing rights resulting from residential mortgage and commercial loan sales are amortized in proportion to and over the period of estimated net servicing revenues and are reported as a component of mortgage banking net revenue and corporate banking revenue, respectively, in the Consolidated Statements of Income. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the prepayment speeds of the underlying loans, the weighted-average life, the discount rate, the weighted-average coupon and the weighted-average default rate, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speeds. The Bancorp monitors risk and adjusts its valuation allowance as necessary to adequately reserve for impairment in the servicing portfolio. For purposes of measuring impairment, the mortgage servicing rights are stratified into classes based on the financial asset type (fixed-rate vs. adjustable-rate) and interest rates. 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 Consolidated Statements of Income as loan payments are received. Costs of servicing loans are charged to expense as incurred.

Bank Premises and Equipment

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method based on estimated useful lives of the assets for book purposes, while accelerated depreciation is used for income tax purposes. Amortization of leasehold improvements is computed using the straight-line method over the lives of the related leases or useful lives of the related assets, whichever is shorter. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Bancorp tests its long-lived assets for impairment through both a probability-weighted and primary-asset approach whenever events or changes in circumstances dictate. Maintenance, repairs and minor improvements are charged to noninterest expense in the Consolidated Statements of Income as incurred.

Derivative Financial Instruments

The Bancorp accounts for its derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. This Statement requires recognition of all derivatives as either assets or liabilities in the balance sheet and requires measurement of those instruments at fair value through adjustments to accumulated other comprehensive

income and/or current earnings, as appropriate. On the date the Bancorp enters into a derivative contract, the Bancorp designates the derivative instrument as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period net income. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to net income in the same period(s) that the hedged transaction impacts net income. For free-standing derivative instruments, changes in fair values are reported in current period net income.

Prior to entering into a hedge transaction, the Bancorp formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions, along with a formal assessment at both inception of the hedge and on an ongoing basis as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued and the adjustment to fair value of the derivative instrument is recorded in net income.

Income Taxes

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

Deferred income tax assets and liabilities are determined using the balance sheet method and are reported in either other assets or accrued taxes, interest and expenses in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and 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.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Consolidated Balance Sheets. The Bancorp evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period s income tax expense and can be significant to the operating results of the Bancorp. As described in greater detail in Note 16, the Internal Revenue Service has challenged the Bancorp s tax treatment of certain leasing transactions. For additional information on income taxes, see Note 22.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Share

In accordance with SFAS No. 128, Earnings Per Share, basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Earnings per diluted share is computed by dividing adjusted net income available to common shareholders by the weighted-average number of shares of common stock and common stock equivalents outstanding during the period. Dilutive common stock equivalents represent the assumed conversion of convertible preferred stock and the exercise of stock-based awards.

Goodwill

SFAS No. 142, Goodwill and Other Intangible Assets requires goodwill to be reported at, and tested for impairment at the Bancorp s reporting unit level on an annual basis and more frequently in certain circumstances. 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. To determine the fair value of a reporting unit, the Bancorp implements an income based approach, utilizing the reporting unit s forecasted cash flows (including a terminal value approach to estimate cash flows beyond the final year of the forecast) and the reporting unit s estimated cost of equity as the discount rate. Additionally, the Bancorp determines its market capitalization based on the average close price of the Bancorp s stock during the month including the measurement date, incorporating an additional control premium (as discussed in SFAS No. 142), and allocates this market based fair value measurement to the Bancorp s reporting units in order to corroborate the results of the income approach.

When required to perform Step 2, the Bancorp compares the implied fair value of a reporting unit s goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss equal to that excess amount is recognized, not to exceed the goodwill carrying amount. 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 units over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. This assignment process is only performed for purposes of testing goodwill for impairment. The Bancorp does not adjust the carrying values of recognized assets or liabilities (other than goodwill, if appropriate), nor recognize previously unrecognized intangible assets in the Consolidated Financial Statements as a result of this assignment process. Refer to Note 8 for discussion of the Bancorp s goodwill impairment review process.

Other

Securities and other property held by Fifth Third Investment Advisors, a division of the Bancorp s banking subsidiaries, in a fiduciary or agency capacity are not included in the Consolidated Balance Sheets because such items are not assets of the subsidiaries. Investment advisory revenue in the Consolidated Statements of Income is recognized on the accrual

basis. Investment advisory service revenues are recognized monthly based on a fee charged per transaction processed and/or a fee charged on the market value of average account balances associated with individual contracts.

The Bancorp recognizes revenue from its electronic payment processing services on an accrual basis as such services are performed, recording revenues net of certain costs (primarily interchange and assessment fees charged by credit card associations) not controlled by the Bancorp.

The Bancorp purchases life insurance policies on the lives of certain directors, officers and employees and is the owner and beneficiary of the policies. The Bancorp invests in these policies, known as BOLI, to provide an efficient form of funding for long-term retirement and other employee benefits costs. The Bancorp records these BOLI policies within other assets in the Consolidated Balance Sheets at each policy s respective cash surrender value, with changes recorded in other noninterest income in the Consolidated Statements of Income.

Other intangible assets consist of core deposit intangibles, customer lists, non-competition agreements and cardholder relationships. Other intangibles are amortized on either a straight-line or an accelerated basis over their useful lives. The Bancorp reviews other intangible assets for impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable.

Acquisitions of treasury stock are carried at cost. Reissuance of shares in treasury for acquisitions, exercises of stock-based awards or other corporate purposes is recorded based on the specific identification method.

Advertising costs are generally expensed as incurred.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The adoption of SFAS No. 157 on January 1, 2008 did not have a material effect on the Bancorp s Consolidated Financial Statements. In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 , which delayed the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The impact of adopting SFAS No. 157 for non-fina