FIFTH THIRD BANCORP
Form 10-Q
August 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2010

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

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

Fifth Third Center

Cincinnati, Ohio 45263

(Address of principal executive offices)

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

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

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

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

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

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

There were 796,319,712 shares of the Registrant s common stock, without par value, outstanding as of June 30, 2010.

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FINANCIAL CONTENTS

This report may contain forward-looking statements about Fifth Third Bancorp and/or the company as combined acquired entities within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder, 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 will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other words or phrases such as believes, plans, trend, objective, continue, remain, or similar expressions, or future or conditional verbs such as would, should, could, might, can, or similar verbs. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) general economic conditions and weakening in the economy, specifically the real estate market, either nationally or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, are less favorable than expected; (2) deteriorating credit quality; (3) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (4) changes in the interest rate environment reduce interest margins; (5) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (6) Fifth Third s ability to maintain required capital levels and adequate sources of funding and liquidity; (7) maintaining capital requirements may limit Fifth Third s operations and potential growth; (8) changes and trends in capital markets; (9) problems encountered by larger or similar financial institutions may adversely affect the banking industry and/or Fifth Third; (10) competitive pressures among depository institutions increase significantly; (11) effects of critical accounting policies and judgments; (12) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (13) legislative or regulatory changes or actions, or significant litigation, adversely affect Fifth Third, one or more acquired entities and/or the combined company or the businesses in which Fifth Third, one or more acquired entities and/or the combined company are engaged; (14) ability to maintain favorable ratings from rating agencies; (15) fluctuation of Fifth Third s stock price; (16) ability to attract and retain key personnel; (17) ability to receive dividends from its subsidiaries; (18) potentially dilutive effect of future acquisitions on current shareholders ownership of Fifth Third; (19) effects of accounting or financial results of one or more acquired entities; (20) difficulties in separating Fifth Third Processing Solutions from Fifth Third; (21) loss of income from any sale or potential sale of businesses that could have an adverse effect on Fifth Third s earnings and future growth; (22) ability to secure confidential information through the use of computer systems and telecommunications networks; and (23) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is available in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2009, filed with the United States Securities and Exchange Commission (SEC). Copies of this filing are available at no cost on the SEC s Web site at www.sec.gov or on the Fifth Third Web site at www.53.com. Fifth Third undertakes no obligation to release revisions to these forward-looking statements or reflect events or circumstances after the date of this report.

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

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

TABLE 1: Selected Financial Data

($ in millions, except per share data)	For the three months ended June 30, 2010	2009	% Change	For the six months ended June 30, 2010	2009	% Change
Income Statement Data						
Net interest income *(a)*	**$ 887**	$ 836	6	**$ 1,788**	$ 1,617	11
Noninterest income	**620**	2,583	(76)	**1,247**	3,280	(62)
Total revenue *(a)*	**1,507**	3,419	(56)	**3,035**	4,897	(38)
Provision for loan and lease losses	**325**	1,041	(69)	**915**	1,814	(50)
Noninterest expense	**935**	1,021	(8)	**1,891**	1,984	(5)
Net income	**192**	882	(78)	**182**	932	(80)
Net income available to common shareholders	**130**	856	(85)	**57**	829	(93)
Common Share Data						
Earnings per share, basic	**$ 0.16**	$ 1.35	(88)	**$ 0.07**	$ 1.37	(95)
Earnings per share, diluted	**0.16**	1.15	(86)	**0.07**	1.18	(94)
Cash dividends per common share	**0.01**	0.01		**0.02**	0.02	
Market value per share	**12.29**	7.10	73	**12.29**	7.10	73
Book value per share	**12.65**	12.71		**12.65**	12.71	
Financial Ratios (%)						
Return on assets	**0.68**	3.05	(78)	**0.32**	1.60	(80)
Return on average common equity	**5.2**	41.2	(87)	**1.2**	20.7	(94)
Average equity as a percent of average assets	**12.04**	10.78	12	**11.98**	10.48	14
Tangible equity *(b)*	**9.89**	9.72	2	**9.89**	9.72	2
Tangible common equity *(b)*	**6.55**	6.55		**6.55**	6.55	
Net interest margin *(a)*	**3.57**	3.26	10	**3.60**	3.16	14
Efficiency *(a)*	**62.1**	29.9	108	**62.3**	40.5	54
Credit Quality						
Net losses charged off	**$ 434**	$ 626	(31)	**$ 1,016**	$ 1,116	(9)
Net losses charged off as a percent of average loans and leases	**2.26**	3.08	(27)	**2.64**	2.73	(3)
Allowance for loan and lease losses as a percent of loans and leases	**4.85**	4.28	13	**4.85**	4.28	13
Allowance for credit losses as a percent of loans and leases *(c)*	**5.18**	4.57	13	**5.18**	4.57	13
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned *(d)*	**3.87**	3.48	11	**3.87**	3.48	11
Average Balances						
Loans and leases, including held for sale	**$ 78,808**	$ 84,996	(7)	**$ 79,468**	$ 85,410	(7)
Total securities and other short-term investments	**20,890**	17,762	18	**20,726**	17,798	16
Total assets	**112,613**	115,878	(3)	**113,021**	117,272	(4)
Transaction deposits *(e)*	**65,508**	54,115	21	**64,859**	53,236	22
Core deposits *(f)*	**76,844**	68,727	12	**76,555**	67,793	13
Wholesale funding *(g)*	**18,977**	31,369	(40)	**19,591**	33,126	(41)

Shareholders equity	**13,563**	12,490	9	**13,541**	12,288	10
Regulatory Capital Ratios (%)						
Tier I capital	**13.66**	12.90	6	**13.66**	12.90	6
Total risk-based capital	**18.00**	16.96	6	**18.00**	16.96	6
Tier I leverage	**12.24**	12.17	1	**12.24**	12.17	1
Tier I common equity *(b)*	**7.17**	6.94	3	**7.17**	6.94	3

*(a) Amounts presented on a fully taxable equivalent (FTE) basis. The FTE adjustments for the three months ended **June 30, 2010** and 2009 were **$5** and for the six months ended **June 30, 2010** and 2009 were **$9** and $10, respectively.*

(b) The tangible equity, tangible common equity and Tier I common equity ratios are non-GAAP measures. For further information, see the Non-GAAP Financial Measures section of the MD&A.

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

(d) Excludes nonaccrual loans held for sale.

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

(f) Includes transaction deposits plus other time deposits.

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

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

OVERVIEW

Fifth Third Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At June 30, 2010, the Bancorp had $112 billion in assets, operated 16 affiliates with 1,309 full-service Banking Centers, including 102 Bank Mart® locations open seven days a week inside select grocery stores, and 2,362 Jeanie® ATMs in 12 states throughout the Midwestern and Southeastern regions of the United States. The Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Investment Advisors. The Bancorp also has a 49% interest in Fifth Third Processing Solutions, LLC.

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 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. The Bancorp believes its affiliate operating model provides a competitive advantage by emphasizing individual relationships. Through its affiliate operating model, individual managers at all levels within the affiliates are given the opportunity to tailor financial solutions for their customers.

The Bancorp s revenues are dependent on both net interest income and noninterest income. For the three months ended June 30, 2010, net interest income, on a fully taxable equivalent (FTE) basis, and noninterest income provided 59% and 41% 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 weakened 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 service charges on deposits, corporate banking revenue, mortgage banking net revenue, fiduciary and investment management fees and card and processing revenue. Noninterest expense is primarily driven by personnel costs and occupancy expenses, costs incurred in the origination of loans and leases, and insurance premiums paid to the Federal Deposit Insurance Corporation (FDIC).

Earnings Summary

During the first half of 2010, credit trends showed signs of improvement. The Bancorp s net income available to common shareholders for the quarter ended June 30, 2010 was $130 million, or $0.16 per diluted share, which included $62 million in preferred stock dividends. For the quarter ended June 30, 2009, the Bancorp s net income available to common shareholders was $856 million, or $1.15 per diluted share, which included $26 million in preferred stock dividends. The Bancorp s net income available to common shareholders for the six months ended June 30, 2010 was $57 million, or $0.07 per diluted share, which included $125 million in preferred stock dividends. For the six months ended June 30, 2009, the Bancorp s net income available to common shareholders was $829 million, or $1.18 per diluted share, which included $103 million in preferred stock dividends.

Net interest income (FTE) increased six percent in the second quarter of 2010 to $887 million, compared to $836 million in the same period last year, and increased 11% to $1.8 billion during the six months ended June 30, 2010, compared to $1.6 billion in the same period last year. The primary reason for the increase in net interest income was an increase in the interest rate spread, which increased 33 basis points (bp) from the second quarter of 2009 and increased 46 bp compared to the six months ended June 30, 2009. This was the result of a mix shift from higher cost term deposits to lower cost deposit products throughout 2009 and into the first half of 2010, as well as a decrease in short-term borrowings and long-term debt, partially offset by reduced loan demand. Second quarter 2010 and 2009 results

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

included $17 million and $37 million, respectively, of net interest income due to the accretion of premiums and discounts on loans and deposits from acquisitions during 2008, while the six months ended June 30, 2010 and 2009 included $38 million and $80 million, respectively, of net interest income due to the accretion of premiums and discounts on loans. Excluding these adjustments, net interest income increased $71 million, or nine percent, from the second quarter of 2009 and increased $213 million from the six months ended June 30, 2009. Net interest margin was 3.57% in the second quarter of 2010 and 3.60% for the six months ended June 30, 2010, an increase of 31 bp from the second quarter of 2009 and an increase of 44 bp from the six months ended June 30, 2009.

Noninterest income decreased 76% to $620 million in the second quarter of 2010 compared to the same period last year and decreased 62% to $1.2 billion in the six months ended June 30, 2010 compared to the same period in 2009. This was driven primarily by the sale of a majority interest in the Bancorp s merchant acquiring and financial institutions processing business in June 2009 (hereinafter the Processing Business Sale). Second quarter 2010 results include $13 million in revenue from the Transition Service Agreement (TSA) entered into as part of the Processing Business Sale, while second quarter 2009 results include a $1.8 billion gain generated by the Processing Business Sale. The six months ended June 30, 2010 includes $26 million in revenue from the TSA. Excluding these items, noninterest income declined $212 million from the second quarter of 2009 and declined $295 million from the six months ended June 30, 2009, driven primarily by lower card and processing revenue due to the Processing Business Sale, as well as decreases in mortgage banking net revenue and service charges on deposits, partially offset by growth in investment advisory revenue.

Noninterest expense decreased $86 million, or eight percent, compared to the second quarter of 2009 and decreased $93 million, or five percent compared to the six months ended June 30, 2009, due primarily to a decrease in card and processing expense as a result of the Processing Business Sale in June 2009. In addition, decreases in the provision for unfunded commitments and letters of credit and lower FDIC insurance premiums were partially offset by an increase in expenses related to representations and warranties on residential mortgage loans sold to third-parties. Results for the second quarter of 2010 and the six months ended June 30, 2010 include $13 million and $26 million, respectively, in operating expenses related to the previously mentioned TSA.

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 weakened economic conditions. Throughout 2009 and into 2010, the Bancorp continued to be affected by high unemployment rates, weakened housing markets, particularly in the upper Midwest and Florida, and a challenging credit environment. Credit trends, however, showed signs of moderation in 2010 and, as a result, the provision for loan and lease losses decreased 69% to $325 million for the three months ended June 30, 2010, compared to $1.0 billion during the three months ended June 30, 2009, and decreased 50% to $915 million for the six months ended June 30, 2010, compared to $1.8 billion during the same period in 2009. Net charge-offs as a percent of average loans and leases decreased to 2.26% during the second quarter of 2010 compared to 3.08% during the second quarter of 2009 and decreased 9 bp in the six months ended June 30, 2010 compared to the same period in 2009. At June 30, 2010, nonperforming assets as a percent of loans, leases and other assets, including other real estate owned (excluding nonaccrual loans held for sale) were 3.87%, compared to 4.22% at December 31, 2009 and 3.48% at June 30, 2009. Refer to the Credit Risk Management section in Management s Discussion and Analysis for more information on credit quality.

The Bancorp s capital ratios exceed the well-capitalized guidelines as defined by the Board of Governors of the Federal Reserve System (FRB). As of June 30, 2010, the Tier I capital ratio was 13.66%, the Tier I leverage ratio was 12.24% and the total risk-based capital ratio was 18.00%.

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

NON-GAAP FINANCIAL MEASURES

The Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio, tangible common equity ratio and tier I common equity ratio, in addition to capital ratios defined by banking regulators. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because accounting principles generally accepted in the United States of America (U.S. GAAP) do not include capital ratio measures, the Bancorp believes there are no comparable U.S. GAAP financial measures to these ratios. Tier I common equity is not formally defined by U.S. GAAP or codified in the federal banking regulations and, therefore, is considered to be a non-GAAP financial measure. Since analysts and banking regulators may assess the Bancorp s capital adequacy using these ratios, the Bancorp believes they are useful to provide investors the ability to assess its capital adequacy on this same basis.

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

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

TABLE 2: Non-GAAP Financial Measures

As of ($ in millions)	June 30, 2010	December 31, 2009	June 30, 2009
Total shareholders equity (U.S. GAAP)	**$ 13,701**	13,497	13,700
Less: Goodwill	**(2,417)**	(2,417)	(2,417)
Intangible assets	**(83)**	(106)	(133)
Accumulated other comprehensive income	**(440)**	(241)	(152)
Tangible equity (1)	**10,761**	10,733	10,998
Less: Preferred stock	**(3,631)**	(3,609)	(3,588)
Tangible common equity (2)	**$ 7,130**	7,124	7,410
Total assets (U.S. GAAP)	**$ 112,025**	113,380	115,984
Less: Goodwill	**(2,417)**	(2,417)	(2,417)
Intangible assets	**(83)**	(106)	(133)
Accumulated other comprehensive income, before tax	**(677)**	(370)	(234)
Tangible assets, excluding unrealized gains / losses (3)	**$ 108,848**	110,487	113,200
Total shareholders equity (U.S. GAAP)	**$ 13,701**	13,497	13,700
Goodwill and certain other intangibles	**(2,537)**	(2,565)	(2,564)
Unrealized gains	**(440)**	(241)	(152)

Qualifying trust preferred securities	**2,763**	2,763	2,763
Other	**(25)**	(26)	(5)
Tier I capital	**13,462**	13,428	13,742
Less: Preferred stock	**(3,631)**	(3,609)	(3,588)
Qualifying trust preferred securities	**(2,763)**	(2,763)	(2,763)
Tier I common equity (4)	**$ 7,068**	7,056	7,391
Risk-weighted assets (5) *(a)*	**$ 98,557**	100,862	106,538
Ratios:			
Tangible equity (1) / (3)	**9.89%**	9.71	9.72
Tangible common equity (2) / (3)	**6.55%**	6.45	6.55
Tier I common equity (4) / (5)	**7.17%**	7.00	6.94

(a) Under the banking agencies risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet exposures are assigned to broad risk categories. The aggregate dollar amount in each risk category is multiplied by the associated risk weight of the category. The resulting weighted values are added together, resulting in the Bancorp s total risk-weighted assets.

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

RECENT ACCOUNTING STANDARDS

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

CRITICAL ACCOUNTING POLICIES

The Bancorp s Condensed Consolidated Financial Statements are prepared in accordance with U.S. GAAP. Certain accounting policies require management to exercise judgment in determining methodologies, economic assumptions and estimates that may materially affect the value of the Bancorp s assets or liabilities and results of operations and cash flows. The Bancorp s critical accounting policies include the accounting for allowance for loan and lease losses, reserve for unfunded commitments, income taxes, valuation of servicing rights, fair value measurements and goodwill. These accounting policies are discussed in detail in Management s Discussion and Analysis Critical Accounting Policies in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2009. No material changes have been made to the valuation techniques or models during the six months ended June 30, 2010.

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

STATEMENTS OF INCOME ANALYSIS

Net Interest Income

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

Tables 3 and 4 present the components of net interest income, net interest margin and net interest spread for the three and six months ended June 30, 2010 and 2009. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale securities included in other assets.

Net interest income (FTE) was $887 million for the second quarter of 2010, an increase of $51 million from the second quarter of 2009. For the six months ended June 30, 2010, net interest income was $1.8 billion, an increase of $171 million from the same period in 2009. Included within net interest income are adjustments related to the accretion of discounts on acquired loans and deposits, primarily as a result of the second quarter 2008 acquisition of First Charter Corporation (First Charter), which increased net interest income $17 million and $38 million during the three and six months ended June 30, 2010, respectively, compared to $37 million and $80 million during the three and six months ended June 30, 2009, respectively. 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. Based upon the remaining period to maturity, and excluding the impact of prepayments, the Bancorp anticipates recognizing approximately $27 million in additional net interest income during the remainder of 2010 and $45 million in 2011 as a result of the amortization and accretion of premiums and discounts on acquired loans and deposits. Exclusive of the impact of these items, net interest income increased $71 million compared to the second quarter of 2009 and $213 million compared to the six months ended June 30, 2009.

For the three and six months ended June 30, 2010, net interest income was positively impacted by a decrease of $7.0 billion and $7.8 billion, respectively, in average interest-bearing liabilities from the same periods in 2009. This was driven by growth in the Bancorp s free-funding position as higher priced term deposits issued in the second half of 2008 continued to mature throughout 2009 and into 2010 coupled with an increase in the average equity position. This activity was partially offset by decreases of $3.1 billion and $3.0 billion for the three and six months ended June 30, 2010, respectively, in average interest-earning assets. The shift in funding composition and improved pricing spreads on commercial loans resulted in an increase in the net interest rate spread to 3.28% and 3.30% for the three and six months ended June 30, 2010, respectively, compared to 2.95% and 2.84% for the three and six months ended June 30, 2009, respectively.

Net interest margin increased to 3.57% and 3.60% for the three and six months ended June 30, 2010, respectively, compared to 3.26% and 3.16% and in the same prior year periods. Net interest margin was affected by the amortization and accretion of premiums and discounts on acquired loans and deposits that increased net interest margin approximately 6 bp and 7 bp during the three and six months ended June 30, 2010, respectively, compared to 13 bp and 14 bp increases in same prior year periods. Exclusive of these adjustments, net interest margin increased 38 bp in the second quarter of 2010 and increased 51 bp during the six months ended June 30, 2010 compared to the same prior year periods driven by improved pricing on new commercial loan originations and the previously mentioned shift in funding composition to lower cost core deposits, an increase in free-funding balances and a decrease in average rates paid on interest bearing liabilities.

Total average interest-earning assets for the three and six months ended June 30, 2010 decreased three percent from the same periods in the prior year. For the second quarter of 2010, average commercial loans and average consumer loans decreased nine percent and five percent, respectively, compared to the second quarter of 2009. For the six months ended June 30, 2010, average total commercial loans and average consumer loans decreased 10% and three percent, respectively, compared to the six months ended June 30, 2009. These decreases were partially offset by an increase in the average investment portfolio of 18% in the three months ended June 30, 2010 compared to the second quarter of 2009 and an increase of 16% in the six months ended June 30, 2010 compared to the same period in 2009. Further detail on the Bancorp s investment securities portfolio and loan and lease portfolio can be found in the Investment Securities and Loan and Leases sections, respectively, of Management s Discussion and Analysis.

Interest income (FTE) from loans and leases decreased $43 million, or four percent, compared to the second quarter of 2009. The decrease in interest income was a result of a seven percent decrease in average loan and lease balances partially offset by a 15 bp increase in average yield. Exclusive of the amortization and accretion of premiums and discounts on acquired loans, interest income (FTE) from loans and leases decreased $23 million compared to the prior year second quarter. For the six months ended June 30, 2010, interest income (FTE) from loans and leases decreased $82 million, or four percent, compared to the same period in 2009, due to a seven percent decrease in average loan balances partially offset by a 15 bp increase in the average yield. Exclusive of the amortization and accretion of premiums and

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

discounts on acquired loans, interest income (FTE) from loans and leases decreased $39 million in the six months ended June 30, 2010 compared to the prior year period.

Interest income (FTE) from investment securities and short-term investments decreased $20 million, or 11%, compared to the second quarter of 2009 and $17 million, or 5%, in the six months ended June 30, 2010 compared to the prior year periods. The decrease in the second quarter was primarily the result of a 101 bp decrease in the average yield. The decrease in the six months ended June 2010 compared to the same period in 2009 was the result of a 76 bp decrease in the average yield partially offset by a 16% increase in the average investment portfolio.

For the three months ended June 30, 2010, average core deposits increased $8.1 billion, or 12%, compared to the second quarter of 2009 and $8.8 billion, or 13%, for the six months ended June 30, 2010 compared to the same period in 2009. The increases compared to both periods were primarily due to an increase in average demand deposits, average interest checking balances and average savings balances, partially offset by a decrease in average time deposits. The cost of average core deposits decreased 37 bp from the second quarter of 2009 to 0.67% and decreased 39 bp from the six months ended June 30, 2009 to 0.69%, primarily as the result of a mix shift to lower cost core deposits and a decrease in rates on average time deposits of 78 bp and 82 bp during the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009.

For the three months ended June 30, 2010, interest expense on wholesale funding decreased $64 million, or 38%, compared to the second quarter of 2009 and $167 million, or 43%, for the six months ended June 30, 2010 compared to the same period in 2009 primarily as a result of a decrease in rates and a decline in average balances. During the three and six months ended June 30, 2010, wholesale funding represented 25% of interest-bearing liabilities compared to 38% and 39%, respectively, during the prior year periods. The decline in wholesale funding balances is primarily a result of a decrease in other short term borrowings due to a repayment of Term Auction Facility funds which had an average balance in the three and six months ended June 30, 2009 of $6.5 billion and $7.1 billion, respectively, in addition to decreases of $5.1 billion and $4.9 billion in certificates of deposit over $100,000 during the three and six months ended June 30, 2010, respectively, compared to the same periods in the prior year. The decreased reliance on wholesale funding in the three and six months ended June 30, 2010 compared to the prior year periods was a result of growth of core deposits, a decline in average interest earning assets and an increase in the Bancorp s average equity position. Refer to the Capital Management section for additional information on the Bancorp s capital actions.

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

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

For the three months ended	June 30, 2010			June 30, 2009			Attribution of Change in Net Interest Income *(a)*		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets									
Interest-earning assets:									
Loans and leases *(b)*:									
Commercial and industrial loans	$ 26,179	$ 310	4.75%	$ 28,038	$ 283	4.06%	($ 19)	$ 46	$ 27
Commercial mortgage	11,772	120	4.10	12,668	140	4.44	(10)	(10)	(20)
Commercial construction	3,258	25	3.15	4,842	34	2.80	(13)	4	(9)
Commercial leases	3,336	38	4.51	3,512	41	4.66	(2)	(1)	(3)
Subtotal commercial	44,545	493	4.44	49,060	498	4.07	(44)	39	(5)
Residential mortgage loans	9,390	112	4.77	11,669	164	5.65	(29)	(23)	(52)
Home equity	12,102	121	4.01	12,636	131	4.14	(6)	(4)	(10)
Automobile loans	10,170	154	6.01	8,692	138	6.36	24	(8)	16
Credit card	1,859	50	10.91	1,863	47	10.06	(1)	4	3
Other consumer loans/leases	742	25	13.65	1,076	20	7.52	(8)	13	5
Subtotal consumer	34,263	462	5.40	35,936	500	5.58	(20)	(18)	(38)
Total loans and leases	78,808	955	4.86	84,996	998	4.71	(64)	21	(43)
Securities:									
Taxable	16,451	161	3.93	16,778	181	4.33	(4)	(16)	(20)
Exempt from income taxes *(b)*	154	3	6.98	242	5	8.04	(1)	(1)	(2)
Other short-term investments	4,285	2	0.20	742		0.15	2		2
Total interest-earning assets	99,698	1,121	4.51	102,758	1,184	4.62	(67)	4	(63)
Cash and due from banks	2,163			2,350					
Other assets	14,550			13,907					
Allowance for loan and lease losses	(3,798)			(3,137)					
Total assets	$ 112,613			$ 115,878					
Liabilities and Shareholders Equity									
Interest-bearing liabilities:									
Interest checking	$ 18,652	$ 14	0.30%	$ 14,837	$ 10	0.27%	$ 3	$ 1	$ 4
Savings	19,446	30	0.60	16,705	32	0.77	4	(6)	(2)
Money market	4,679	5	0.42	4,167	7	0.63		(2)	(2)
Foreign office deposits	3,325	3	0.36	1,717	2	0.54	2	(1)	1
Other time deposits	11,336	76	2.70	14,612	127	3.48	(26)	(25)	(51)
Certificates - $100,000 and over	6,354	34	2.13	11,455	80	2.80	(30)	(16)	(46)

Other deposits	**5**		**0.10**	240		0.19			
Federal funds purchased	**264**		**0.17**	542		0.18			
Other short-term borrowings	**1,478**	**1**	**0.21**	8,002	12	0.61	(6)	(5)	(11)
Long-term debt	**10,876**	**71**	**2.64**	11,130	78	2.79	(3)	(4)	(7)
Total interest-bearing liabilities	**76,415**	**234**	**1.23**	83,407	348	1.67	(56)	(58)	(114)
Demand deposits	**19,406**			16,689					
Other liabilities	**3,229**			3,292					
Total liabilities	**99,050**			103,388					
Shareholders equity	**13,563**			12,490					
Total liabilities and shareholders equity	**$ 112,613**			$ 115,878					
Net interest income		**$ 887**			$ 836		$ (11)	$ 62	$ 51
Net interest margin			**3.57%**			3.26%			
Net interest rate spread			**3.28**			2.95			
Interest-bearing liabilities to interest-earning assets			**76.65**			81.17			

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

(b) The fully taxable-equivalent adjustments included in the above table are ***$5*** *for the three months ended* ***June 30, 2010*** *and 2009.*

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

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

For the six months ended	June 30, 2010			June 30, 2009			Attribution of Change in Net Interest Income *(a)*		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets									
Interest-earning assets:									
Loans and leases *(b)*:									
Commercial and industrial loans	**$ 26,239**	**$ 609**	**4.68%**	$ 28,500	$ 570	4.03%	$ (48)	$ 87	$ 39
Commercial mortgage	**11,804**	**243**	**4.15**	12,738	284	4.50	(20)	(21)	(41)
Commercial construction	**3,518**	**53**	**3.03**	4,978	76	3.08	(22)	(1)	(23)
Commercial leases	**3,402**	**76**	**4.53**	3,538	68	3.89	(3)	11	8
Subtotal commercial	**44,963**	**981**	**4.40**	49,754	998	4.04	(93)	76	(17)
Residential mortgage loans	**9,434**	**233**	**4.98**	11,297	327	5.84	(50)	(44)	(94)
Home equity	**12,219**	**243**	**4.01**	12,699	265	4.21	(10)	(12)	(22)
Automobile loans	**10,178**	**309**	**6.13**	8,690	275	6.38	45	(11)	34
Credit card	**1,899**	**102**	**10.83**	1,844	96	10.47	3	3	6
Other consumer loans/leases	**775**	**49**	**12.73**	1,126	38	6.83	(14)	25	11
Subtotal consumer	**34,505**	**936**	**5.47**	35,656	1,001	5.66	(26)	(39)	(65)
Total loans and leases	**79,468**	**1,917**	**4.87**	85,410	1,999	4.72	(119)	37	(82)
Securities:									
Taxable	**16,843**	**341**	**4.08**	16,532	357	4.36	7	(23)	(16)
Exempt from income taxes *(b)*	**165**	**6**	**7.03**	252	10	7.73	(3)	(1)	(4)
Other short-term investments	**3,718**	**4**	**0.19**	1,014	1	0.18	3		3
Total interest-earning assets	**100,194**	**2,268**	**4.56**	103,208	2,367	4.62	(112)	13	(99)
Cash and due from banks	**2,205**			2,394					
Other assets	**14,407**			14,632					
Allowance for loan and lease losses	**(3,785)**			(2,962)					
Total assets	**$ 113,021**			$ 117,272					
Liabilities and Shareholders Equity									
Interest-bearing liabilities:									
Interest checking	**$ 19,090**	**$ 28**	**0.29%**	$ 14,534	$ 20	0.27%	$ 6	$ 2	$ 8
Savings	**18,960**	**60**	**0.64**	16,490	68	0.83	8	(16)	(8)
Money market	**4,651**	**10**	**0.44**	4,362	15	0.67		(5)	(5)
Foreign office deposits	**3,043**	**5**	**0.35**	1,736	5	0.54	2	(2)	
Other time deposits	**11,696**	**158**	**2.73**	14,557	256	3.55	(45)	(53)	(98)
Certificates - $100,000 and over	**6,700**	**71**	**2.14**	11,628	168	2.92	(59)	(38)	(97)

Other deposits	**6**		**0.05**	243		0.21			
Federal funds purchased	**242**		**0.15**	621	1	0.25		(1)	(1)
Other short-term borrowings	**1,464**	**2**	**0.22**	8,807	36	0.82	(18)	(16)	(34)
Long-term debt	**11,179**	**146**	**2.64**	11,827	181	3.09	(10)	(25)	(35)
Total interest-bearing liabilities	**77,031**	**480**	**1.26**	84,805	750	1.78	(116)	(154)	(270)
Demand deposits	**19,115**			16,114					
Other liabilities	**3,334**			4,065					
Total liabilities	**99,480**			104,984					
Shareholders equity	**13,541**			12,288					
Total liabilities and shareholders equity	**$ 113,021**			$ 117,272					
Net interest income		**$ 1,788**			$ 1,617		$ 4	$ 167	$ 171
Net interest margin			**3.60%**			3.16%			
Net interest rate spread			**3.30**			2.84			
Interest-bearing liabilities to interest-earning assets			**76.88**			82.17			

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

(b) *The fully taxable-equivalent adjustments included in the above table are **$9** and $10 for the six months ended **June 30, 2010** and 2009, respectively.*

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

Provision for Loan and Lease Losses

The Bancorp provides as an expense an amount for probable loan and lease losses within the loan portfolio that is based on factors discussed in the Critical Accounting Policies section of the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2009. The provision is recorded to bring the allowance for loan and lease losses to a level deemed appropriate by the Bancorp. Actual credit losses on loans and leases are charged against the allowance for loan and lease losses. The amount of loans actually removed from the Condensed Consolidated Balance Sheets is referred to as charge-offs. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

The provision for loan and lease losses was $325 million and $915 million for the three and six months ended June 30, 2010, respectively, compared to $1.0 billion and $1.8 billion during the same periods in 2009. The three and six months ended June 30, 2009 were significantly impacted by growth in nonperforming assets, increases in commercial and consumer delinquencies, and loss estimates once loans became delinquent. During the three and six months ended June 30, 2010 the Bancorp experienced a decrease in nonperforming assets and signs of moderation in general economic conditions resulting in the recognition of less provision expense compared to the prior year periods.

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

Noninterest Income

For the three and six months ended June 30, 2010, noninterest income decreased $2.0 billion compared to the same prior year periods, driven primarily by the gain on the Processing Business Sale of $1.8 billion in the second quarter of 2009. Excluding this gain, noninterest income for the three months ended June 30, 2010 decreased $199 million, or 24%, compared to the same prior year period and decreased $269 million, or 18% for the six months ended June 30, 2010 compared to the same prior year period. The components of noninterest income for the three and six month periods ending June 30, 2010 and 2009 are as follows:

TABLE 5: Noninterest Income

($ in millions)	For the three months ended June 30, 2010	2009	Percent Change	For the six months ended June 30, 2010	2009	Percent Change
Service charges on deposits	**$ 149**	$ 162	(8)	**$ 291**	$ 308	(6)
Mortgage banking net revenue	**114**	147	(22)	**266**	281	(5)
Corporate banking revenue	**93**	93		**174**	206	(15)
Investment advisory revenue	**87**	79	10	**177**	158	12
Card and processing revenue	**84**	243	(65)	**158**	466	(66)
Gain on sale of processing business		1,764	(100)		1,764	(100)
Other noninterest income	**85**	49	73	**160**	60	167
Securities gains (losses), net	**8**	5	60	**21**	(20)	NM
Securities gains, net- non-qualifying hedges on mortgage servicing rights		41	(100)		57	(100)
Total noninterest income	**$ 620**	$ 2,583	(76)	**$ 1,247**	$ 3,280	(62)

NM: Not meaningful

Service charges on deposits decreased $13 million and $17 million for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods. Consumer deposit revenue decreased $10 million and $13 million in the three and six months ended June 30, 2010, respectively, compared to the same prior year periods primarily due to a decrease in overdraft occurrences per day. Regulation E became effective on July 1, 2010 for new accounts and will become effective August 15, 2010 for existing accounts. Regulation E is a Federal Reserve Board rule that prohibits financial institutions from charging consumers fees for paying overdrafts on ATMs and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. The Bancorp has been proactive in developing deposit products that generate alternative revenue streams and has eliminated free checking, unless a customer has a sizable direct deposit or a minimum account balance. These actions should help to mitigate the potential negative impact Regulation E will have on deposit service charge revenue.

Commercial deposit revenue decreased $3 million and $4 million during the three and six months ended June 30, 2010, respectively, compared to the same prior year periods reflecting increased earnings credits paid on customer balances that have resulted in lower realized net service fees to pay for treasury management services. 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

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

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.

Mortgage banking net revenue decreased to $114 million in the second quarter of 2010 from $147 million in the same period last year and decreased to $266 million for the six months ended June 30, 2010, from $281 million in the same period last year. The components of mortgage banking net revenue for the three and six months ended June 30, 2010 and 2009 are shown in Table 6.

TABLE 6: Components of Mortgage Banking Net Revenue

($ in millions)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Origination fees and gains on loan sales	**$ 89**	$ 161	**$ 160**	$ 291
Servicing revenue:				
Servicing fees	**54**	49	**107**	95
Servicing rights amortization	**(25)**	(47)	**(49)**	(90)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**(4)**	(16)	**48**	(15)
Net servicing revenue	**25**	(14)	**106**	(10)
Mortgage banking net revenue	**$ 114**	$ 147	**$ 266**	$ 281

Origination fees and gains on loan sales decreased 45% for both the three and six months ended June 30, 2010 compared to the same prior year periods primarily due to significantly reduced refinance originations, partially offset by increased purchase originations. Refinancing activity decreased as many borrowers have already refinanced or are unable to do so due to declining home values and tightened underwriting standards. This decrease in refinance activity was partially offset by an increase in purchase activity prior to the expiration of the homebuyer tax credit on April 30, 2010. Mortgage originations were $3.8 billion and $7.3 billion during the three and six months ended June 30, 2010, respectively, representing decreases of 47% and 40% compared to the three and six months ended June 30, 2009, respectively.

Mortgage net servicing revenue in the three and six months ended June 30, 2010 increased $39 million and $116 million, respectively, compared to the same prior year periods. Net servicing revenue is comprised of gross servicing fees and related servicing rights amortization as well as valuation adjustments on mortgage servicing rights and mark-to-market adjustments on both settled and outstanding free-standing derivative financial instruments. The increases in net servicing revenue were primarily due to increases in servicing fees, reduced servicing rights amortization and, as discussed in further detail below, improvements in net valuation adjustments on mortgage servicing rights (MSR) and MSR derivatives. The Bancorp s total residential loans serviced as of June 30, 2010, December 31, 2009, and June 30, 2009 was $61.0 billion, $58.5 billion, and $55.0 billion, respectively, with $51.3 billion, $48.6 billion, and $43.5 billion, respectively, of residential mortgage loans serviced for others.

Servicing rights are deemed impaired when a borrower s loan rate is distinctly higher than prevailing rates. Impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. Further detail on the valuation of MSRs can be found in Note 9 of the Notes to Condensed Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in impairment on the MSR portfolio.

For the three months ended June 30, 2010, the Bancorp recognized gains from derivatives economically hedging MSRs of $96 million, offset by a temporary impairment of $100 million, resulting in a net loss of $4 million. For the six months ended June 30, 2010, the Bancorp recognized gains from derivatives economically hedging MSRs of $154 million partially offset by a temporary impairment of $106 million resulting in a net gain of $48 million. For the three months ended June 30, 2009, the Bancorp recognized losses from derivatives economically hedging MSRs of $66 million offset by a reversal of temporary impairment of $50 million resulting in a net loss of $16 million. For the six months ended June 30, 2009, the Bancorp recognized gains from derivatives economically hedging MSRs of $4 million partially offset by a temporary impairment of $19 million resulting in a net loss of $15 million. See Note 10 of the Notes to Condensed Consolidated Financial Statements for more information on the free-standing derivatives used to hedge the MSR portfolio.

In addition to the derivative positions used to economically hedge the MSR portfolio, the Bancorp acquires various securities as a component of its non-qualifying hedging strategy. Net gains on sales of securities related to the Bancorp s non-qualifying hedging strategy were immaterial in the three and six months ended June 30, 2010. Net gains recognized on the sales of securities related to the Bancorp s non-qualifying hedging strategy were $41 million and $57 million during the three and six months ended June 30, 2009, respectively.

Corporate banking revenue was flat for the three months ended June 30, 2010 compared to the same prior year period. For the six months ended June 30, 2010, corporate banking revenue decreased $32 million compared to the same prior year period due to decreases in lease remarketing fees, international income and servicing fees on loans serviced for others. Lease remarketing fees decreased primarily due to a reduction in lease remarketing activity compared to the six months ended June 30, 2009 while international income decreased due to the

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impact of current economic conditions on foreign exchange and letter of credit volume. Servicing fees on loans serviced for others were primarily impacted by a change in U.S. GAAP adopted by the Bancorp on January 1, 2010. For further discussion of the impact of amended accounting guidance adopted during 2010, see Note 3 of the Notes to Condensed Consolidated Financial Statements.

Investment advisory revenue for the three and six months ended June 30, 2010 increased $8 million and $19 million, respectively, compared to the same prior year periods. The Bancorp experienced increases across most major categories within investment advisory revenue in both the three and six month period ended June 30, 2010. Market performance improved compared to the prior year periods, resulting in increased activity and average asset balances. As of June 30, 2010, the Bancorp had approximately $178 billion in assets under care and managed $24 billion in assets for individuals, corporations and not-for-profit organizations.

Card and processing revenue decreased $159 million and $308 million during the three and six months ended June 30, 2010, respectively, compared to the same prior year periods primarily due to the Processing Business Sale on June 30, 2009. The financial institutions and merchant processing portions of the business, that were included in the sale, historically comprised approximately 70% of total card and processing revenue. Excluding the impact of the sold portions of the business, card and processing revenue increased 14% and 11% during the three and six months ended June 30, 2010, respectively, compared to the same prior year periods due to strong growth in debit and credit card transaction volumes.

The major components of other noninterest income are as follows:

TABLE 7: Components of Other Noninterest Income

($ in millions)	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Operating lease income	**$ 15**	$ 14	**$ 31**	$ 29
Transition Service Agreement (TSA) revenue	**13**		**26**	
Bank owned life insurance income (loss)	**12**	17	**23**	(26)
Consumer loan and lease fees	**9**	11	**15**	23
Cardholder fees	**8**	11	**19**	24
Insurance income	**8**	14	**17**	26
Gain on loan sales	**6**	11	**31**	21
Banking center income	**5**	5	**10**	11
Loss on sale of other real estate owned	**(13)**	(13)	**(29)**	(27)
Other	**22**	(21)	**17**	(21)
Total other noninterest income	**$ 85**	$ 49	**$ 160**	$ 60

Other noninterest income increased $36 million and $100 million for the three and six months ended June 30, 2010 compared to the same prior year periods. The increase of $36 million for the three months ended June 30, 2010 compared to the same prior year period was driven by income of $13 million from the TSA entered into as part of the Processing Business Sale coupled with a $15 million impairment charge for the three months ended June 30, 2009, recorded in the other caption, on a facility the Bancorp subsequently vacated. The increase of $100 million for the six months ended June 30, 2010 compared to the same prior year period was driven by income of $26 million from the previously mentioned TSA coupled with a bank owned life insurance (BOLI) charge of $54 million recognized in the first quarter of 2009 reflecting reserves recorded in connection with the intent to surrender a policy, as well as losses related to market value declines.

Net securities gains totaled $8 million and $21 million in the three and six months ended June 30, 2010, respectively, compared to $5 million of net securities gains during the three months ended June 30, 2009 and net securities losses of $20 million during the six months ended June 30, 2009. Net securities losses for the six months ended June 30, 2009 included $18 million in losses attributable to the reclassification of securities related to deferred compensation plans from available-for-sale to trading.

Noninterest Expense

Total noninterest expense decreased $86 million for the three months ended June 30, 2010 compared to the same period last year due to a decrease in card and processing expense resulting from the Processing Business Sale in June of 2009, lower FDIC insurance premiums and a decreased provision for unfunded commitments and letters of credit. Noninterest expense decreased $93 million for the six months ended June 30, 2010 compared to the same period last year due to the items mentioned previously, partially offset by increases in charges to representation and warranty reserves related to residential mortgage loans sold to third-parties. As part of the Processing Business Sale, the Bancorp entered into the TSA that resulted in the Bancorp incurring approximately $13 million and $26 million in operating expenses during the three and six months ended June 30, 2010, respectively, that were offset with revenue from the TSA recorded in other noninterest income.

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

The major components of noninterest expense are as follows:

TABLE 8: Noninterest Expense

($ in millions)	For the three months ended June 30, 2010	2009	Percent Change	For the six months ended June 30, 2010	2009	Percent Change
Salaries, wages and incentives	**$ 356**	$ 346	3	**$ 686**	$ 673	2
Employee benefits	**73**	75	(3)	**159**	158	
Net occupancy expense	**73**	79	(8)	**150**	158	(5)
Technology and communications	**45**	45	(1)	**90**	90	
Equipment expense	**31**	31		**60**	62	(3)
Card and processing expense	**31**	75	(58)	**56**	141	(60)
Other noninterest expense	**326**	370	(12)	**690**	702	(2)
Total noninterest expense	**$ 935**	$ 1,021	(8)	**$ 1,891**	$ 1,984	(5)

Total personnel costs (salaries, wages and incentives plus employee benefits) increased 2% for the three months ended June 30, 2010 compared to the same period last year, driven by an increase in base and variable compensation, partially offset by a decrease in deferred compensation. The increase in base compensation was due to investments in the sales force in the second quarter of 2010. Personnel costs also increased 2% for the six months ended June 30, 2010 as higher stock-based and variable compensation were partially offset by a decrease in base compensation. The decline in base compensation for the six months ended June 30, 2010 can be attributed to lower severance costs in 2010 compared to 2009. Full time equivalent employees totaled 20,479 as of June 30, 2010 compared to 20,702 as of June 30, 2009. The decrease in full time equivalent employees from June 30, 2009 is primarily due to the transfer of employees on January 1, 2010 from the Processing Business Sale in June of 2009, partially offset by increases in the sales force during 2010.

Card and processing expense includes third-party processing expenses, card management fees and other bankcard processing expenses. Card and processing expense decreased 58% and 60% for the three and six months ended June 30, 2010, respectively, compared to the same periods last year due to the Processing Business Sale in the second quarter of 2009.

The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 62.1% and 29.9% for the three months ended June 30, 2010 and 2009, respectively. The efficiency ratio was 62.3% and 40.5% for the six months ended June 30, 2010 and 2009, respectively. Excluding the $1.8 billion gain on the Processing Business Sale, the efficiency ratio for the three and six months ended June 30, 2009 was 61.7% and 63.3%, respectively (comparison being provided to illustrate the fundamental trend). The Bancorp continues to focus on efficiency initiatives as part of its core emphasis on operating leverage and expense control.

The major components of other noninterest expense are as follows:

TABLE 9: Components of Other Noninterest Expense

($ in millions)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
FDIC insurance and other taxes	**$ 66**	$ 106	**$ 135**	$ 151
Loan and lease	**47**	67	**95**	121
Losses and adjustments	**30**	18	**93**	44
Marketing	**27**	18	**48**	35
Affordable housing investments impairment	**24**	20	**47**	38
Travel	**13**	10	**24**	19
Postal and courier	**12**	13	**24**	28
Intangible asset amortization	**11**	16	**23**	31
Insurance	**11**	17	**25**	28
Professional services fees	**11**	13	**21**	31
Operating lease	**11**	10	**22**	19
Recruitment and education	**8**	7	**15**	16
OREO	**7**	4	**14**	9
Provision for unfunded commitments and letters of credit	**(6)**	9	**3**	44
Other	**54**	42	**101**	88
Total other noninterest expense	**$ 326**	$ 370	**$ 690**	$ 702

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Total other noninterest expense decreased $44 million compared to the second quarter of 2009 primarily due to decreased FDIC insurance expense resulting from a $55 million charge in the second quarter of 2009 from a special assessment, coupled with a decrease in the provision for unfunded commitments and letters of credit. The decrease in the provision for unfunded commitments and letters of credit was due to lower estimates of inherent losses resulting from a decrease in delinquent loans as general economic conditions began to show signs of moderation in 2010.

Total other noninterest expense for the six months ended June 30, 2010 decreased $12 million primarily due to the decreased provision for unfunded commitments and letters of credit in addition to lower FDIC insurance expense, partially offset by charges to representation and warranty reserves on residential mortgage loans sold to third-parties included in losses and adjustments. The expense for representation and warranties totaled $45 million and $11 million during the six months ended June 30, 2010 and 2009, respectively, with the increase resulting primarily from a higher volume of repurchase demands.

Applicable Income Taxes

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

TABLE 10: Applicable Income Taxes

($ in millions)	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Income before income taxes	**$ 242**	1,352	**$ 220**	$ 1,089
Applicable income tax expense	**50**	470	**38**	157
Effective tax rate	**20.5%**	34.7%	**17.3%**	14.5%

Applicable income tax expense for all periods includes the tax benefit from tax-exempt income, tax-advantaged investments and general business tax credits, partially offset by the effect of certain nondeductible expenses. The effective tax rate for the three and six months ended June 30, 2010 includes $9 million and $23 million, respectively, of non-cash charges relating to previously recognized tax benefits associated with stock-based compensation that will not be realized. The effective tax rate for the six months ended June 30, 2010 was also impacted by a $24 million tax benefit resulting from the settlement of certain uncertain tax positions with the IRS during the first quarter.

The effective tax rate for the quarter ended June 30, 2009 was primarily impacted by the pre-tax gain on the Processing Business Sale of $1.8 billion, which had an effective tax rate of approximately 40%. The effective tax rate for the six months ended June 30, 2009 was also impacted by the pre-tax loss in the first quarter of 2009, a $106 million tax benefit due to the impact of the decision to surrender one of the Bancorp s BOLI policies and the determination that the losses on the policy recorded in prior periods are now expected to be tax deductible. Further, the effective tax rate for the six months ended June 30, 2009 was impacted by a $55 million tax benefit resulting from an agreement with the IRS to settle all of the Bancorp s disputed leverage leases for all open years.

Deductibility of Executive Compensation

Certain sections of the Internal Revenue Code limit the deductibility of compensation paid to or earned by certain executive officers of a public company. This has historically limited compensation to $1 million per executive officer, and the Bancorp s compensation philosophy has been to position pay to ensure deductibility. However, both the limit and the allowable compensation vehicles have changed as a result of the Bancorp s participation in TARP. In particular, the Bancorp is not permitted to deduct compensation earned by certain executive officers in excess of $500,000 per executive officer as a result of the Bancorp s participation in TARP. Therefore, a portion of the compensation earned by certain executive officers is not deductible by the Bancorp. The impact on the Bancorp s tax liability as a result of payments in excess of this $500,000 per executive officer limit is approximately $4 million. The limitation of the deductibility of compensation earned by certain executive officers will continue until the Bancorp ends its participation in TARP. However, once the Bancorp has paid back its TARP funds, certain limitations will continue to apply to some forms of compensation granted while under TARP. The Bancorp s Compensation Committee determined that the underlying executive compensation programs are appropriate and necessary to attract, retain and motivate senior executives, and that failing to meet these objectives creates more risk for the Bancorp and its value than the financial impact of losing the tax deduction.

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BALANCE SHEET ANALYSIS

Loans and Leases

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

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

	June 30, 2010		December 31, 2009		June 30, 2009	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial and industrial loans	**$ 26,011**	**33**	$ 25,687	34	$ 28,419	33
Commercial mortgage loans	**11,569**	**15**	11,936	15	12,600	15
Commercial construction loans	**3,042**	**4**	3,871	5	4,641	6
Commercial leases	**3,271**	**4**	3,535	4	3,532	4
Subtotal commercial	**43,893**	**56**	45,029	58	49,192	58
Consumer:						
Residential mortgage loans	**9,672**	**12**	9,846	12	11,440	14
Home equity	**11,987**	**15**	12,174	15	12,511	15
Automobile loans	**10,285**	**13**	8,995	11	8,741	10
Credit card	**1,841**	**3**	1,990	3	1,914	2
Other consumer loans and leases	**704**	**1**	812	1	972	1
Subtotal consumer	**34,489**	**44**	33,817	42	35,578	42
Total loans and leases	**$ 78,382**	**100**	78,846	100	84,770	100
Total portfolio loans and leases (excludes loans held for sale)	**$ 76,232**		76,779		81,429	

Total loans and leases, including loans held for sale, at June 30, 2010 decreased $464 million or one percent compared to December 31, 2009 and $6.4 billion or eight percent, compared to June 30, 2009. The decrease in total loans and leases from December 31, 2009 was a result of a three percent decrease in total commercial loans partially offset by a two percent increase in total consumer loans. The decrease in total loans and leases from June 30, 2009 was a result of an 11% decrease in total commercial loans and a three percent decrease in total consumer loans. In accordance with a change in U.S. GAAP, on January 1, 2010 the Bancorp consolidated certain commercial and industrial, automobile, and home equity loans with remaining outstanding balances of $501 million, $911 million and $252 million, respectively, at June 30, 2010. Excluding the impact of the change in U.S. GAAP, total loans and leases decreased $2.1 billion, or three percent, compared to December 31, 2009 and $8.1 billion, or 10% compared to June 30, 2009. For further discussion on this topic, refer to Note 3 and Note 8 of the Notes to Condensed Consolidated Financial Statements.

Total commercial loans and leases decreased $1.1 billion, or three percent, from December 31, 2009 as a result of decreases in commercial mortgage loans, commercial construction loans and commercial leases partially offset by an increase in commercial and industrial loans. Commercial and industrial loan balances increased $324 million, or one percent compared to December 31, 2009 primarily as a result of the previously mentioned change in U.S. GAAP. Commercial mortgage loans decreased $367 million, or three percent, compared to December 31, 2009 as a result of tighter lending requirements in an overall effort to limit exposure to commercial real estate. Commercial construction loans decreased $829 million, or 21%, from December 31, 2009 primarily due to management s strategy to suspend new lending on commercial non-owner occupied real estate beginning in 2008 and the outflow of completed construction projects that were transitioned to commercial mortgage loans. Total commercial leases decreased approximately eight percent compared to December 31, 2009 as a result of general declines in leasing activity attributable to weak economic conditions.

Total commercial loans and leases decreased $5.3 billion, or 11%, compared to June 30, 2009 due to decreases across each commercial loan category. Commercial and industrial loan balances decreased $2.4 billion, or nine percent, compared to June 30, 2009 as a result of a decrease in customer demand for new originations, a decrease in customer line utilization rates from 39% to 32% and tighter underwriting standards applied to both new loan originations and renewals, partially offset by the impact of the previously mentioned change in U.S. GAAP. Included in the commercial and industrial balance at June 30, 2010 and 2009 were loans of approximately $1.23 billion and $1.25 billion, respectively, issued in conjunction with the Processing Business Sale in the second quarter of 2009. Commercial mortgage loans decreased $1.0 billion, or eight percent, from June 30, 2009 primarily as a result of tighter lending requirements in an overall effort to limit exposure to commercial real estate. Commercial construction loans decreased $1.6 billion, or 35%, from June 30, 2009 due to management s strategy to suspend new lending on commercial non-owner occupied real estate beginning in 2008 and the outflow of completed construction projects that were transitioned to commercial mortgage loans. Total commercial leases decreased approximately seven percent compared to June 30, 2009 as a result of general declines in leasing activity attributable to weak economic conditions.

Total consumer loans and leases increased $672 million, or two percent, compared to December 31, 2009. The increase from December 31, 2009 was primarily a result of the previously mentioned impact on automobile loans at June 30, 2010 due to the change in U.S. GAAP partially offset by decreases in all other consumer loan categories. Residential mortgage loans decreased $174 million, or two percent, from December 31, 2009 due to a decrease in new residential mortgage loan originations as many customers took advantage of low interest rates

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in 2009. Home equity loans decreased $187 million, or two percent, from December 31, 2009 as tighter underwriting standards and a decrease in customer demand were partially offset by the previously mentioned impact on home equity loans due to the change in U.S. GAAP. Automobile loans increased $1.3 billion, or 14%, compared to December 31, 2009, primarily as a result of the previously mentioned impact on automobile loans due to the change in U.S. GAAP. Credit card loans decreased $149 million, or eight percent, from December 31, 2009 as a result of paydowns on existing balances due to seasonality and a decrease in new account originations in 2010. Other consumer loans and leases decreased $108 million, or 13% from the prior year end due to a decline in new originations as a result of tighter underwriting standards across the other consumer loan and lease portfolio.

Total consumer loans and leases decreased $1.1 billion, or three percent, compared to June 30, 2009 primarily due to decreases in residential mortgage loans, home equity loans and other consumer loans partially offset by an increase in automobile loans. Residential mortgage loans decreased $1.8 billion, or 16%, from June 30, 2009 primarily as a result of a decrease in new residential mortgage loan originations as many customers took advantage of low interest rates in 2009 coupled with continued paydowns in the portfolio as a result of a continued high percentage of new origination volume that was sold in the secondary market. Home equity loans decreased $524 million, or four percent, from June 30, 2009 primarily as a result of tighter underwriting standards implemented in 2008 that limited the Bancorp s exposure as home values deteriorated throughout 2009 and into 2010, partially offset by the previously mentioned change in U.S. GAAP. Automobile loans increased $1.5 billion, or 18%, compared to June 30, 2009 as a result of the previously mentioned change in U.S. GAAP combined with continued growth in new automobile loan originations in 2010. Credit card loans decreased $73 million, or four percent, from June 30, 2009 primarily as a result of a decrease in average balance per credit card and a decrease in new account originations in 2010. Other consumer loans and leases, primarily made up automobile leases and student loans designated as held-for-sale, decreased $268 million, or 28%, compared to the prior year same quarter due to a decline in new originations as a result of tighter underwriting standards across the other consumer loan and lease portfolio.

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

	June 30, 2010		December 31, 2009		June 30, 2009	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Commercial:						
Commercial and industrial loans	**$ 26,179**	**33**	$ 25,838	32	$ 28,038	33
Commercial mortgage loans	**11,772**	**15**	12,126	15	12,668	15
Commercial construction loans	**3,258**	**4**	4,134	5	4,842	6
Commercial leases	**3,336**	**5**	3,574	5	3,512	4
Subtotal commercial	**44,545**	**57**	45,672	57	49,060	58
Consumer:						
Residential mortgage loans	**9,390**	**12**	10,142	13	11,669	14
Home equity	**12,102**	**15**	12,291	16	12,636	15
Automobile loans	**10,170**	**13**	8,973	11	8,692	10
Credit card	**1,859**	**2**	1,982	2	1,863	2
Other consumer loans and leases	**742**	**1**	860	1	1,076	1
Subtotal consumer	**34,263**	**43**	34,248	43	35,936	42
Total average loans and leases	**$ 78,808**	**100**	$ 79,920	100	$ 84,996	100

Total portfolio loans and leases (excludes loans held for sale)	**$ 76,973**	$ 77,601	$ 81,573

Average commercial loans and leases decreased $1.1 billion, or two percent, compared to the fourth quarter of 2009 and $4.5 billion, or nine percent, compared to the second quarter of 2009. The decrease in average total commercial loans and leases from both periods was driven by lower customer line utilization rates, lower demand for new loans, and tighter underwriting standards implemented in 2008 partially offset by the impact of the change in U.S. GAAP, which required the Bancorp to consolidate previously sold loans.

Average consumer loans and leases were flat compared to the fourth quarter of 2009 due to an increase in average automobile loans, as a result of the previously mentioned change in U.S GAAP, offset by declines in all other average consumer loan products due to lower customer demand and tighter underwriting standards. Average consumer loans and leases decreased $1.7 billion, or five percent, compared to the second quarter of 2009. The decrease in the average consumer loan balances from the second quarter of 2009 is primarily a result of a 20% decrease in average residential mortgage loans due to lower origination volumes in the second quarter of 2010. The previously mentioned change in U.S. GAAP contributed approximately $987 million to average automobile loans and $255 million to average home equity loans in the second quarter of 2010.

Investment Securities

The Bancorp uses investment securities as a means of managing interest rate risk, providing liquidity support and providing collateral for pledging purposes. As of June 30, 2010, total investment securities were $16.6 billion, compared to $18.9 billion at December 31, 2009 and $17.8 billion at June 30, 2009.

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

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conditions. Securities that management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. The Bancorp s management has evaluated the securities in an unrealized loss position in the available-for-sale and held-to-maturity portfolios for other than temporary impairment (OTTI). During the six months ended June 30, 2010 and 2009, the Bancorp did not recognize OTTI on its investment securities portfolio. See Note 5 of the Notes to Condensed Consolidated Financial Statements for further information on OTTI.

At June 30, 2010, December 31, 2009 and June 30, 2009, the Bancorp s investment portfolio primarily consisted of AAA-rated agency mortgage-backed securities. The Bancorp did not hold asset-backed securities backed by subprime mortgage loans in its investment portfolio at June 30, 2010, December 31, 2009 or June 30, 2009. Additionally, there was approximately $142 million of securities classified as below investment grade as of June 30, 2010, $178 million as of December 31, 2009 and $150 million as of June 30, 2009.

TABLE 13: Components of Investment Securities

($ in millions)	June 30, 2010	December 31, 2009	June 30, 2009
Available-for-sale and other: (amortized cost basis)			
U.S. Treasury and Government agencies	**$ 475**	464	357
U.S. Government sponsored agencies	**1,692**	2,143	1,748
Obligations of states and political subdivisions	**196**	240	301
Agency mortgage-backed securities	**10,109**	11,074	9,085
Other bonds, notes and debentures	**946**	2,541	3,057
Other securities	**1,938**	1,417	1,272
Total available-for-sale and other securities	**$ 15,356**	17,879	15,820
Held-to-maturity: (amortized cost basis)			
Obligations of states and political subdivisions	**$ 349**	350	352
Other bonds, notes and debentures	**5**	5	5
Total held-to-maturity	**$ 354**	355	357
Trading: (fair value)			
Variable rate demand notes	**$ 169**	235	970
Other securities	**101**	120	384
Total trading	**$ 270**	355	1,354

As of June 30, 2010, available-for-sale securities on an amortized cost basis decreased $2.5 billion from December 31, 2009 and $464 million from June 30, 2009. The decrease from December 31, 2009 was primarily the result of a change in U.S. GAAP that required the Bancorp to consolidate certain variable interest entities (VIEs), resulting in the elimination of approximately $805 million in commercial paper and $236 million of residual interest classified as available-for-sale securities on January 1, 2010. Further impacting the available-for-sale securities were approximately $932 million in paydowns on agency mortgage-backed securities, primarily related to the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage corporation (FHLMC) delinquent loan buy-back programs in the second quarter of 2010, as well as the sale of approximately $151 million of commercial mortgage-backed securities and commercial mortgage obligations and $150 million in paydowns on other asset-backed securities in the first quarter of 2010. The Bancorp did not reinvest cash flows in securities during the quarter due to the low market rate environment in the quarter. The decrease from June 30, 2009 was due to the factors previously discussed, partially offset by the purchase of approximately $2.0 billion in agency mortgage-backed securities during the fourth quarter of 2009.

At June 30, 2010, available-for-sale securities were 16% of total interest-earning assets, compared to 18% at December 31, 2009 and 15% at June 30, 2009. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 4.2 years at June 30, 2010 compared to 4.4 years at December 31, 2009 and 4.3 years at June 30, 2009. In addition, at June 30, 2010, the fixed-rate securities within the available-for-sale securities portfolio had a weighted-average yield of 4.41% compared to 4.48% at December 31, 2009 and 4.62% at June 30, 2009.

Information presented in Table 14 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 throughout 2009 and into 2010 which led to unrealized gains on agency mortgage-backed securities of $538 million, $308 million, and $261 million as of June 30, 2010, December 31, 2009 and June 30, 2009, respectively. Total net unrealized gains on the available-for-sale securities portfolio was $665 million at June 30, 2010 compared to $334 million at December 31, 2009 and $241 million at June 30, 2009.

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

As of June 30, 2010 ($ 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	$ 275	276	0.2	0.81%
Average life 1 5 years	100	101	1.9	1.20
Average life 5 10 years	100	105	9.4	3.56
Average life greater than 10 years			14.5	2.20
Total	475	482	2.5	1.47
U.S. Government sponsored agencies:				
Average life of one year or less	81	83	0.7	3.35
Average life 1 5 years	51	51	2.2	1.54
Average life 5 10 years	1,560	1,662	6.4	3.82
Total	1,692	1,796	6.0	3.73
Obligations of states and political subdivisions *(a)*:				
Average life of one year or less	96	97	0.2	7.46
Average life 1 5 years	13	13	3.1	8.05
Average life 5 10 years	46	47	6.1	7.95
Average life greater than 10 years	41	42	11.2	5.72
Total	196	199	4.1	7.25
Agency mortgage-backed securities:				
Average life of one year or less	198	201	0.7	4.70
Average life 1 5 years	8,550	8,999	3.7	4.44
Average life 5 10 years	1,361	1,447	6.1	4.88
Total	10,109	10,647	4.0	4.50
Other bonds, notes and debentures *(b)*:				
Average life of one year or less	45	45	0.3	5.13
Average life 1 5 years	724	745	1.8	5.18
Average life 5 10 years	108	106	5.6	7.53
Average life greater than 10 years	69	63	23.6	7.21
Total	946	959	3.7	5.59
Other securities *(c)*	1,938	1,938		
Total available-for-sale and other securities	$ 15,356	16,021	4.2	4.41%

(a) *Taxable-equivalent yield adjustments included in the above table are 2.57%, 1.02%, 0.10%, 1.97% and 1.76% 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 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 holdings, certain mutual fund holdings and equity security holdings.

Trading securities decreased $85 million, or 24%, compared to December 31, 2009 and $1.1 billion compared to June 30, 2009. The decrease from June 30, 2009 was driven by the sale of VRDNs, which were held by the Bancorp in its trading securities portfolio. These securities were purchased from the market during 2008 and 2009 through Fifth Third Securities (FTS) who was also the remarketing agent. During the fourth quarter of 2009, the rates on these securities began to decline substantially, and as a result the Bancorp sold a majority of its VRDNs and replaced them with higher-yielding agency mortgage-backed securities classified as available-for-sale. The Bancorp continued to sell the VRDNs in the first half of 2010, resulting in the decrease in trading securities from December 31, 2009. For more information on the VRDNs, see Note 11 of the Notes to Condensed Consolidated Financial Statements. Trading securities included $5 million and $13 million of auction rate securities as of June 30, 2010 and December 31, 2009, respectively. The unrealized loss on these securities was immaterial to the Bancorp as of June 30, 2010, and approximately $4 million at December 31, 2009. Auction rate securities held by the Bancorp were immaterial as of June 30, 2009.

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 improving customer satisfaction, building full relationships and offering competitive rates. Core deposits represented 68% of the Bancorp s asset funding base at June 30, 2010 and December 31, 2009, respectively, and 60% at June 30, 2009.

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TABLE 15: Deposits

($ in millions)	June 30, 2010 Balance	% of Total	December 31, 2009 Balance	% of Total	June 30, 2009 Balance	% of Total
Demand	**$ 19,256**	**23**	$ 19,411	23	$ 17,202	21
Interest checking	**17,759**	**22**	19,935	24	14,630	18
Savings	**19,646**	**24**	17,898	21	16,819	21
Money market	**4,666**	**6**	4,431	5	4,193	5
Foreign office	**3,430**	**4**	2,454	3	2,244	3
Transaction deposits	**64,757**	**79**	64,129	76	55,088	68
Other time	**10,966**	**13**	12,466	15	14,540	18
Core deposits	**75,723**	**92**	76,595	91	69,628	86
Certificates - $100,000 and over	**6,389**	**8**	7,700	9	10,688	13
Other foreign office	**3**		10		504	1
Total deposits	**$ 82,115**	**100**	$ 84,305	100	$ 80,820	100

Core deposits decreased $872 million, or one percent, compared to December 31, 2009 primarily due to declines in other time deposits and interest checking, partially offset by an increase in savings accounts and foreign office deposits. Other time deposits decreased 12% due to the run-off of higher priced consumer time deposits originated primarily in the second half of 2008. Interest checking decreased 11% as the Bancorp managed its excess liquidity partially through rate management actions on single product public funds accounts. These decreases were partially offset by a 10% increase in savings accounts driven by strong growth in the Bancorp s relationship savings product and a 40% increase in foreign office deposits as the low rate environment resulted in more attractive yields on these deposits.

Foreign office deposits are Eurodollar sweep accounts for the Bancorp s commercial customers and are included in core deposits. These accounts bear interest at rates similar to money market accounts, but the Bancorp does not have to pay FDIC insurance nor provide collateral.

Core deposits increased $6.1 billion, or nine percent, compared to June 30, 2009 as increases in demand and interest checking reflected the effect of larger peers opting out of the FDIC s Transaction Account Guarantee Program (TAG) late last year, as well as growth in the Bancorp s relationship savings product and migration of higher priced certificates originated in 2008 into transaction deposits with historically low rates.

The Bancorp uses other foreign office deposits, as well as certificates of deposit $100,000 and over, as a method to fund earning asset growth. Certificates $100,000 and over at June 30, 2010 decreased $1.3 billion, or 17%, compared to December 31, 2009, and decreased $4.3 billion, or 40%, compared to June 30, 2009, as customers opted to maintain their balances in liquid accounts as rates remain near historical lows.

TABLE 16: Average Deposits

	June 30, 2010		December 31, 2009		June 30, 2009	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Demand	**$ 19,406**	**23**	18,137	23	$ 16,689	21
Interest checking	**18,652**	**22**	16,324	20	14,837	18
Savings	**19,446**	**23**	17,540	22	16,705	21
Money market	**4,679**	**6**	4,279	5	4,167	5
Foreign office	**3,325**	**4**	2,516	3	1,717	2
Transaction deposits	**65,508**	**78**	58,796	73	54,115	67
Other time	**11,336**	**14**	13,049	16	14,612	18
Core deposits	**76,844**	**92**	71,845	89	68,727	85
Certificates - $100,000 and over	**6,354**	**8**	8,200	11	11,455	15
Other foreign office	**5**		51		240	
Total average deposits	**$ 83,203**	**100**	80,096	100	$ 80,422	100

On an average basis, core deposits increased $5.0 billion, or seven percent, compared to the fourth quarter of 2009, and increased $8.1 billion, or 12%, compared to the second quarter of 2009. As previously discussed above, customers have opted to maintain excess funds in liquid transaction accounts as rates remain historically low.

Borrowings

Total borrowings at June 30, 2010 increased $681 million, or six percent, compared to December 31, 2009 and declined $4.6 billion, or 26%, from June 30, 2009. The increase in total borrowings compared to December 31, 2009 was a result of an increase in both long term debt and short term borrowings while the decrease from June 30, 2009 was the result of a combination of balance sheet activity and capital

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actions taken by the Bancorp throughout 2009. Total loans and leases decreased $6.4 billion and total core deposits increased $6.1 billion from June 30, 2009 which resulted in a decrease of the funding position of the Bancorp by approximately $12.5 billion. In the second quarter of 2009, the Processing Business Sale provided $562 million of cash and the Bancorp raised an additional $1.0 billion through the issuance of common equity in the public market, further decreasing the Bancorp s funding needs. As of June 30, 2010, December 31, 2009 and June 30, 2009, total borrowings as a percentage of interest-bearing liabilities were 17%, 16% and 21%, respectively.

Total short-term borrowings were $1.8 billion at June 30, 2010 compared to $1.6 billion at December 31, 2009 and $7.2 billion at June 30, 2009. The decrease in short-term borrowings from June 30, 2009 is due to the repayment of $5.5 billion of Term Auction Facility funds which were held by the Bancorp as of June 30, 2009. The Bancorp s overall reduced reliance on short-term funding compared to June 30, 2009 can be attributed to declining asset balances and strong deposit growth. Short-term borrowings include securities sold under repurchase agreements which are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold plus accrued interest.

Long-term debt at June 30, 2010 increased five percent compared to December 31, 2009 and nine percent compared June 30, 2009. The increase from both periods was primarily the result of a change in U.S. GAAP that required the Bancorp to consolidate long-term debt on January 1, 2010 that had an outstanding balance of $996 million as of June 30, 2010 partially offset by the maturity of $800 million of long-term debt in the first quarter of 2010. Additionally, FHLB advances increased $499 million compared to June 30, 2009. For further discussion on the change in U.S. GAAP, refer to Notes 3 and 8 of the Notes to Condensed Consolidated Financial Statements.

Information on the average rates paid on borrowings is discussed in the Statements of Income Analysis in Management s Discussion and Analysis. In addition, refer to the Liquidity Risk Management section for a discussion on the role of borrowings in the Bancorp s liquidity management.

TABLE 17: Borrowings

($ in millions)	June 30, 2010	December 31, 2009	June 30, 2009
Federal funds purchased	**$ 240**	$ 182	$ 435
Other short-term borrowings	**1,556**	1,415	6,802
Long-term debt	**10,989**	10,507	10,102
Total borrowings	**$ 12,785**	12,104	$ 17,339

TABLE 18: Average Borrowings

($ in millions)	June 30, 2010	December 31, 2009	June 30, 2009
Federal funds purchased	**$ 264**	$ 423	$ 542
Other short-term borrowings	**1,478**	3,029	8,002
Long-term debt	**10,876**	10,404	11,130

Total borrowings	**$ 12,618**	13,856	$ 19,674

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

BUSINESS SEGMENT REVIEW

At June 30, 2010, the Bancorp reports on four business segments: Commercial Banking, Branch Banking, Consumer Lending and Investment Advisors. Further detailed financial information on each business segment is included in Note 18 of the Notes to Condensed Consolidated Financial Statements.

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

On June 30, 2009, the Bancorp completed the Processing Business Sale, which represented the sale of a majority interest in the Bancorp s merchant acquiring and financial institutions processing businesses. Financial data for the merchant acquiring and financial institutions processing businesses was originally reported in the former Processing Solutions segment through June 30, 2009. As a result of the sale, the Bancorp no longer presents Processing Solutions as a segment and therefore, historical financial information for the merchant acquiring and financial institutions processing businesses has been reclassified under General Corporate and Other for all periods presented. Interchange revenue previously recorded in the Processing Solutions segment and associated with cards currently included in Branch Banking is now included in the Branch Banking segment for all periods presented. Additionally, the Bancorp retained its retail credit card and commercial multi-card service businesses, which were also originally reported in the former Processing Solutions segment through June 30, 2009, and are now included in the Consumer Lending and Commercial Banking segments, respectively, for all periods presented. Revenue from the remaining ownership interest in the Processing Business is recorded in General Corporate and Other as noninterest income.

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 existed as independent entities. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations, by accessing the capital markets as a collective unit. Net income by business segment is summarized in the following table.

TABLE 19: Business Segment Results

($ in millions)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Commercial Banking	**$ 116**	(2)	**$ 167**	67

Branch Banking	**62**	83	**107**	159
Consumer Lending	**(24)**	3	**(18)**	32
Investment Advisors	**10**	9	**23**	29
General Corporate and Other	**28**	789	**(97)**	645
Net income	**192**	882	**182**	932
Dividends on preferred stock	**62**	26	**125**	103
Net income available to common shareholders	**$ 130**	856	**$ 57**	829

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

Commercial Banking

Commercial Banking offers banking, cash management and financial services to large and middle-market businesses, government and professional customers. In addition to the traditional lending and depository offerings, Commercial Banking products and services include global cash management, foreign exchange and international trade finance, derivatives and capital markets services, asset-based lending, real estate finance, public finance, commercial leasing and syndicated finance. The table below contains selected financial data for the Commercial Banking segment.

TABLE 20: Commercial Banking

($ in millions)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Income Statement Data				
Net interest income (FTE) *(a)*	**$ 390**	339	**$ 767**	675
Provision for loan and lease losses	**188**	290	**466**	508
Noninterest income:				
Corporate banking revenue	**89**	88	**165**	196
Service charges on deposits	**47**	49	**95**	97
Other noninterest income	**28**	28	**66**	56
Noninterest expense:				
Salaries, incentives and benefits	**62**	56	**127**	116
Other noninterest expenses	**179**	206	**352**	385
Income before taxes	**125**	(48)	**148**	15
Applicable income tax expense (benefit) *(a)*	**9**	(46)	**(19)**	(52)
Net income (loss)	**$ 116**	(2)	**$ 167**	67
Average Balance Sheet Data				
Commercial loans and leases	**$ 38,499**	42,004	**$ 38,824**	42,602
Demand deposits	**10,813**	8,229	**10,688**	7,875
Interest checking	**8,659**	5,643	**9,331**	5,471
Savings and money market	**2,787**	2,349	**2,733**	2,556
Certificates over $100,000	**3,055**	4,866	**3,114**	4,457
Foreign office deposits	**2,007**	977	**1,763**	1,132

*(a) Includes fully taxable-equivalent adjustments of **$4** and $3 for the three months ended **June 30, 2010** and 2009, respectively, and **$7** for the six months ended **June 30, 2010** and 2009.*

Commercial Banking net income increased $118 million in the second quarter of 2010 and increased $100 million in the six months ended June 30, 2010 compared to the same periods in the prior year due to an increase in net interest income and a decrease in the provision for loan and lease losses. The increase in net interest income for both periods was primarily the result of a mix shift from higher cost term deposits to lower cost deposit products throughout 2009 and into the second quarter of 2010. This was partially offset by reduced loan demand and decreases of $9 million and $21 million for the three and six months ended June 30, 2010, respectively, in the accretion of discounts on loans and deposits associated with the acquisition of First Charter in the second quarter of 2008.

Average commercial loans and leases decreased $3.5 billion, or eight percent, compared to the second quarter of 2009, including decreases of $1.6 billion in commercial construction loans and $1.2 billion in commercial and industrial loans. The overall decrease in commercial loans and leases is due to lower customer demand for new originations, lower utilization rates on corporate lines and tighter underwriting standards applied to both new commercial loan originations and renewals. These impacts were partially offset by the consolidation of approximately $724 million of certain commercial and industrial loans on January 1, 2010, which had a remaining balance as of June 30, 2010 of $501 million. For further information on the consolidation of these loans, see Note 3 of the Notes to Condensed Consolidated Financial Statements.

Provision for loan and lease losses decreased $102 million, or 35%, compared to the second quarter of 2009 and decreased $42 million, or eight percent compared to the six months ended June 30, 2009 due to a decrease in net charge offs from improved credit trends across all commercial loan types. Net charge offs as a percent of average loans and leases decreased to 196 bp for the second quarter of 2010 from 279 bp for the second quarter of 2009. For the six months ended June 30, 2010, net charge-offs as a percent of average loans and leases remained relatively stable at 243 bp, compared to 242 bp in the same period in 2009.

Average core deposits increased $7.1 billion, or 41%, compared to the second quarter of 2009 as the Commercial Banking segment realized significant growth in both demand deposits and interest checking accounts reflecting excess customer liquidity and the effect of the Bancorp s continued participation in the Transaction Account Guarantee (TAG) Program while many peer banks opted out in late 2009.

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

Noninterest income remained relatively flat compared to the second quarter of 2009. Corporate banking revenue was unchanged as increases in both institutional sales and syndication fees were offset by similar declines in international income and servicing fees on loans serviced for others. The decrease in the six months ended June 30, 2010 compared to the same period in 2009 was primarily driven by a $15 million decrease in lease remarketing fees and an $11 million decrease in international income. Noninterest expense decreased $21 million, or eight percent, compared to the second quarter of 2009 and decreased $22 million, or four percent compared to the six months ended June 30, 2009. Declines in FDIC insurance premiums and loan and lease expense from collections activities were partially offset by an increase in personnel costs and impairment on low income housing investments.

Branch Banking

Branch Banking provides a full range of deposit and lending products to individuals and small businesses in 12 states in the Midwestern and Southeastern regions of the United States. Branch Banking offers depository and loan products, such as checking and savings accounts, home equity loans and lines of credit, credit cards and loans for automobile and other personal financing needs, as well as products designed to meet the specific needs of small businesses, including cash management services. The table below contains selected financial data for the Branch Banking segment.

TABLE 21: Branch Banking

($ in millions)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Income Statement Data				
Net interest income	**$ 380**	395	**$ 763**	775
Provision for loan and lease losses	**121**	149	**275**	277
Noninterest income:				
Service charges on deposits	**101**	111	**193**	207
Card and processing revenue	**76**	67	**144**	127
Investment advisory income	**25**	20	**51**	38
Other noninterest income	**25**	31	**53**	59
Noninterest expense:				
Salaries, incentives and benefits	**141**	122	**275**	247
Net occupancy and equipment expense	**43**	42	**87**	84
Other noninterest expense	**207**	183	**402**	353
Income before taxes	**95**	128	**165**	245
Applicable income tax expense	**33**	45	**58**	86
Net income	**$ 62**	83	**$ 107**	159
Average Balance Sheet Data				
Consumer loans	**$ 12,791**	13,180	**$ 12,913**	13,178
Commercial loans	**4,880**	5,405	**4,944**	5,481
Demand deposits	**6,875**	6,352	**6,764**	6,250
Interest checking	**7,481**	7,594	**7,403**	7,501

Savings and money market	**19,788**	16,752	**19,272**	16,493
Other time	**11,138**	14,282	**11,470**	14,233

Net income decreased $21 million and $52 million for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods, as declines in net interest income and service charges on deposits and increased noninterest expense were partially offset by growth in card and processing revenue and lower provisions for loan and lease losses. Net interest income decreased $15 million and $12 million during the three and six months ended June 30, 2010, respectively, compared to the same prior year periods, as the impact of lower average loan balances more than offset a favorable shift in the segment s deposit mix towards lower cost transaction accounts.

For the three and six months ended June 30, 2010, provision for loan and lease losses decreased $28 million and $2 million, respectively, compared to the same prior year periods, as net charge offs declined primarily due to the benefit of continued efforts to improve the quality of originations and proactively resolve credit issues. Net charge-offs as a percent of average loan and leases decreased to 272 bp for the second quarter of 2010 compared to 323 bp for the second quarter of 2009 and increased to 310 bp in the six months ended June 30, 2010 from 299 bp for the same period in 2009.

Noninterest income decreased $2 million during the three months ended June 30, 2010, compared to the same prior year period, as a decrease in service charges on deposits was partially offset by an increase in card and processing revenue. Service charges on deposits decreased primarily due to a decrease in overdraft occurrences per day, compared to the same prior year period, while card and processing revenue increased due to increased interchange fees from higher transaction volumes. Noninterest income increased $10 million during the

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

six months ended June 30, 2010 as increased card and processing revenue was partially offset by a decrease in service charges on deposits due to the factors previously discussed.

Noninterest expense increased $44 million and $80 million for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods, due to increases in salaries, incentives, and benefits and other noninterest expense. Salaries, incentives, and benefits increased due to additional front line branch personnel and greater incentive accruals attributable to success in opening new deposit and brokerage accounts. The increases in other noninterest expense were primarily driven by increases in card and processing expense, a component of other noninterest expense, as a result of higher transaction volumes.

For the three and six months ended June 30, 2010, average loans and leases decreased $914 million and $802 million, respectively, compared to the same prior year periods, primarily due to decreases in commercial and industrial loans and home equity loans as a result of net charge-offs recorded in the second half of 2009 and previously discussed tightened underwriting standards. The decrease in home equity loans was partially offset by loans consolidated on January 1, 2010 in accordance with a change in U.S. GAAP, which had an average balance of $255 million in the second quarter of 2010. For further discussion of the impact of amended accounting guidance adopted by the Bancorp during 2010, see Note 3 of the Notes to Condensed Consolidated Financial Statements.

Average core deposits increased $302 million, or one percent, during the three months ended June 30, 2010, compared to the same prior year period as customer balances in the Bancorp s relationship savings product continued to increase.

Consumer Lending

Consumer Lending includes the Bancorp s mortgage, home equity, automobile and other indirect lending activities. Mortgage and home equity lending activities include the origination, retention and servicing of mortgage and home equity loans or lines of credit, sales and securitizations of those loans or pools of loans or lines of credit and all associated hedging activities. Other indirect lending activities include loans to consumers through mortgage brokers, automobile dealers and federal and private student education loans. The table below contains selected financial data for the Consumer Lending segment.

TABLE 22: Consumer Lending

($ in millions)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Income Statement Data				
Net interest income	$ **96**	136	$ **205**	271
Provision for loan and lease losses	**117**	169	**254**	304
Noninterest income:				
Mortgage banking net revenue	**111**	140	**255**	271
Other noninterest income	**12**	50	**23**	77
Noninterest expense:				
Salaries, incentives and benefits	**49**	58	**87**	102
Other noninterest expenses	**90**	94	**169**	164
(Loss) income before taxes	**(37)**	5	**(27)**	49
Applicable income tax expense	**(13)**	2	**(9)**	17

Net (loss) income	**($ 24)**	3	**($ 18)**	32
Average Balance Sheet Data				
Residential mortgage	**$ 9,109**	11,397	**$ 9,148**	11,082
Home equity	**865**	1,016	**882**	1,033
Automobile loans	**9,452**	7,895	**9,457**	7,870
Consumer leases	**414**	666	**443**	700

Net income decreased $27 million and $50 million for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods as decreases in net interest income, mortgage banking net revenue and other noninterest income were partially offset by a decrease in the provision for loan and lease losses and payroll related costs. The decrease in net interest income for both periods was primarily the result of decreases of $8 million and $14 million for the three and six months ended June 30, 2010, respectively, in the accretion of discounts on loans associated with the acquisition of First Charter in the second quarter of 2008 as well as a decrease in average interest earning assets.

Provision for loan and lease losses decreased $52 million, or 31%, compared to the second quarter of 2009 and $50 million, or 16%, compared to the six months ended June 30, 2009. The decrease from the prior year periods was due to a decrease in net charge-offs across all loan products as general economic conditions in the Bancorp s footprint began to show signs of moderation in 2010. This included improvements in net charge off activity in Florida and Michigan in the second quarter of 2010 compared to the second quarter of 2009. The decrease in residential mortgage net charge offs was primarily a result of a decrease in delinquencies and the aforementioned improvements in the Florida and Michigan markets. The decrease in automobile net charge-offs from the three and six months ended June 30, 2009 is primarily due to tighter underwriting standards implemented in 2008, maturation of the automobile portfolio and higher resale values on automobiles sold at auction. The segment continues to focus on managing credit risk through the restructuring of certain residential mortgage loans and careful consideration of underwriting and collection standards. As of June 30, 2010, the Bancorp had restructured approximately $1.1 billion of residential mortgage loans that were accruing interest.

Mortgage banking net revenue decreased $29 million, or 21%, from the second quarter of 2009 and $16 million, or six percent, from the six months ended June 30, 2009 primarily as a result of decreases of 44% and 47%, respectively, in revenue associated with residential mortgage origination activity due to a decline in new residential mortgage originations, partially offset by improved results on mortgage servicing net revenue. Mortgage servicing net revenue represented net gains of $25 million and $106 million, respectively, for the three and six months ended June 30, 2010, compared with net losses of $14 million and $10 million for the same periods in the prior year. Consumer Lending had residential mortgage originations of $3.5 billion and $6.5 billion, respectively, during the three and six months ended June 30, 2010, which were decreases of 50% and 45% from the prior year periods. The Bancorp remains committed to being a prime mortgage originator and has benefited from a decrease in interest rates during 2009 that has continued through the first half of 2010. Other noninterest income decreased $38 million and $54 million compared to the three and six months ended June 30, 2009, primarily due to decreases in securities gains related to mortgage servicing rights hedging activities.

The decrease in average residential mortgage loans was a result of the decrease of new originations, as previously mentioned, and runoff in the portfolio as a result of a continued high percentage of new origination volume that was sold in the secondary market. The average investment portfolio decreased from $927 million in the second quarter of 2009 to $452 million in the second quarter of 2010 due to a reduction in the amount of mortgage-backed securities used to hedge the MSR portfolio. Average automobile loans increased from the second quarter in the prior year due to a change in U.S. GAAP that required the Bancorp to consolidate certain automobile loans on January 1, 2010. The average balance on these consolidated automobile loans during the second quarter of 2010 was approximately $987 million.

Investment Advisors

Investment Advisors provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. The segment is made up of four main businesses: Fifth Third Securities, Inc. (FTS), an indirect wholly-owned subsidiary of the Bancorp; Fifth Third Asset Management, Inc., an indirect wholly-owned subsidiary of the Bancorp; Fifth Third Private Banking; and Fifth Third Institutional Services. FTS offers full service retail brokerage services to individual clients and broker dealer services to the institutional marketplace. Fifth Third Asset Management, Inc. provides asset management services and also advises the Bancorp s proprietary family of mutual funds. Fifth Third Private Banking offers holistic strategies to affluent clients in wealth planning, investing, insurance and wealth protection. Fifth Third Institutional Services provide advisory services for institutional clients including states and municipalities. The following table contains selected financial data for the Investment Advisors segment.

TABLE 23: Investment Advisors

($ in millions)	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Income Statement Data				
Net interest income	$ **36**	39	$ **74**	76
Provision for loan and lease losses	**8**	18	**21**	27
Noninterest income:				

Investment advisory revenue	**84**	76	**171**	153
Other noninterest income	**3**	5	**7**	12
Noninterest expense:				
Salaries, incentives and benefits	**39**	36	**77**	69
Other noninterest expense	**61**	51	**120**	101
Income before taxes	**15**	15	**34**	44
Applicable income tax expense	**5**	6	**11**	15
Net income	**$ 10**	$ 9	**$ 23**	$ 29
Average Balance Sheet Data				
Loans and leases	**$ 2,596**	3,202	**$ 2,663**	3,244
Core deposits	**5,876**	4,853	**5,791**	4,687

Net income increased $1 million during the three months ended June 30, 2010 and decreased $6 million during the six months ended June 30, 2010, compared to the same prior year periods. For the three month period, an increase in investment advisory revenue and a reduction in the provision for loan and lease losses was offset by increases in noninterest expenses. For the six month period, increases in noninterest expenses more than offset increases in investment advisory revenue and a reduction in the provision for loan and lease losses.

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

Provision for loan and lease losses decreased $10 million and $6 million for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods, reflecting tightened underwriting standards across commercial and consumer loan product offerings and moderation of general economic conditions in the Bancorp s footprint.

Noninterest income increased $6 million and $13 million for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods. Improved market performance relative to the prior year periods resulted in increased transactions and average assets under care. As of June 30, 2010, the Bancorp had $178 billion in assets under care and $24 billion in managed assets.

Salaries, incentives, and benefits and other noninterest expense increased for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods as greater levels of transactions and average assets under care drove increased incentive compensation, a component of salaries, incentives and benefits, and operating expenses, a component of other noninterest expense.

Average loan balances decreased $606 million and $581 million for the three and six months ended June 30, 2010, respectively, compared to the same prior year periods primarily due to a decrease in commercial and industrial loan balances. Commercial line utilization has remained low due to current economic uncertainty. Average core deposit balances increased $1.0 billion and $1.1 billion, respectively, for the three and six months ended June 30, 2010 compared to the same prior year periods primarily due to increases in interest checking and foreign office deposits. Given current economic uncertainty, customers have opted to maintain excess funds in liquid transaction accounts as rates remain near historical lows.

General Corporate and Other

General Corporate and Other includes the unallocated portion of the investment securities portfolio, securities gains and losses, certain non-core deposit funding, unassigned equity, provision expense in excess of net charge-offs or income from the reduction of the allowance for loan and lease losses, the payment of preferred stock dividends, historical financial information for the merchant acquiring and financial institutions processing businesses and certain support activities and other items not attributed to the business segments.

The second quarter of 2010 results were primarily impacted by a $109 million reduction in the allowance for loan and lease losses, compared to $415 million of provision expense in excess of net charge offs in the second quarter of 2009, due to improved credit trends. The results for the three and six months ended 2009 included a $1.8 billion pre-tax gain ($1.1 billion after tax) resulting from the Processing Business Sale on June 30, 2009. In addition, the results for the six months ended June 30, 2010 were primarily impacted by a $101 million reduction in the allowance for loan and lease losses, compared to $698 million of provision expense in excess of net charge offs during the same period in 2009.

Quantitative and Qualitative Disclosures About Market Risk (Item 3)

RISK MANAGEMENT OVERVIEW

Managing risk is an essential component of successfully operating a financial services company. The Bancorp s risk management function is responsible for the identification, measurement, monitoring, control and reporting of risk and mitigation of those risks that are inconsistent with the Bancorp s risk profile. The Enterprise Risk Management division (ERM), led by the Bancorp s Chief Risk Officer, ensures consistency in the Bancorp s approach to managing and monitoring risk within the structure of the Bancorp s affiliate operating model. In addition, the Internal Audit division provides an independent assessment of the Bancorp s internal control structure and related systems and processes.

The assumption of risk requires robust and active risk management practices that comprise an integrated and comprehensive set of activities, measures and strategies that apply to the entire organization. The Bancorp has established a Risk Appetite Framework that provides the foundations of corporate risk capacity, risk appetite and risk tolerances. The Bancorp s risk capacity is represented by its available financial resources. Risk capacity sets an absolute limit on risk-assumption in the Bancorp s annual and strategic plans. The Bancorp s policy currently discounts its risk capacity by five percent to provide a buffer; as a result, the Bancorp s risk appetite is limited by policy to 95% of its risk capacity.

Economic capital is the amount of unencumbered financial resources necessary to support the Bancorp s risks. The Bancorp measures economic capital under the assumption that it expects to maintain debt ratings at strong investment grade levels over time. The Bancorp s capital policies require that the economic capital necessary in its business not exceed its risk capacity less the aforementioned buffer.

Risk appetite is the aggregate amount of risk the Bancorp is willing to accept in pursuit of its strategic and financial objectives. By establishing boundaries around risk taking and business decisions, and by incorporating the needs and goals of its shareholders, regulators, rating agencies and customers, the Bancorp s risk appetite is aligned with its priorities and goals. Risk tolerance is the maximum amount of risk applicable to each of the eight specific risk categories included in its Enterprise Risk Management Framework. This is expressed primarily in qualitative terms. The Bancorp s risk appetite and risk tolerances are supported by risk targets and risk limits. Those limits are used to monitor the amount of risk assumed at a granular level.

The risks faced by the Bancorp include, but are not limited to, credit, market, liquidity, operational, regulatory compliance, legal, reputational and strategic. Each of these risks is managed through the Bancorp s risk program. ERM includes the following key functions:

- Enterprise Risk Management Programs is responsible for developing and overseeing the implementation of risk programs and reporting that facilitate a broad integrated view of risk. The department also leads the ongoing development of a strong risk management culture and the framework, policies and committees that support effective risk governance;

- 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, allowance for loan and lease losses (ALLL) methodology and analytics needed to assess credit risk and develop mitigation strategies related to that risk. The department also provides oversight, reporting and monitoring of commercial underwriting and credit administration processes. The Risk Strategies and Reporting department is also responsible for the economic capital program;

- Consumer Credit Risk Management provides safety and soundness within an independent management framework that supports the Bancorp s consumer loan growth strategies, ensuring portfolio optimization, appropriate risk controls and oversight, reporting, and monitoring of underwriting and credit administration processes;

Operational Risk Management works with affiliates and lines of business to maintain processes to monitor and manage all aspects of operational risk including ensuring consistency in application of operational risk programs and Sarbanes-Oxley compliance;

Bank Protection oversees and manages fraud prevention and detection and provides investigative and recovery services for the Bancorp;

Capital Markets Risk Management is responsible for instituting, monitoring, and reporting appropriate trading limits, monitoring liquidity, interest rate risk, and risk tolerances within the Treasury, Mortgage Company, and Capital Markets groups and utilizing a value at risk model for Bancorp market risk exposure;

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

The ERM division creates and maintains other functions, committees or processes as are necessary to effectively manage risk throughout the Bancorp.

Quantitative and Qualitative Disclosures About Market Risk (continued)

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 risk management 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. The primary committee responsible for the oversight of risk management is the Enterprise Risk Management Committee (ERMC). Committees accountable to the ERMC, which support the core risk programs, are the Corporate Credit Committee, the Operational Risk Committee, the Management Compliance Committee, the Executive Asset Liability Management Committee and the Enterprise Marketing Committee. Other committees accountable to the ERMC oversee the loan loss reserve, capital and community reinvestment act/fair lending functions. 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, 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 centrally managed, 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 the adequacy of the allowance for credit losses is based on quarterly assessments of the probable estimated losses inherent in the loan and lease portfolio. The Bancorp uses these assessments to promptly identify potential problem loans or leases within the portfolio, maintain an adequate reserve and take any necessary charge-offs. In addition to the individual review of larger commercial loans that exhibit probable or observed credit weaknesses, the commercial credit review process includes the use of two risk grading systems. The risk grading system currently utilized for reserve analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system that provides for thirteen probabilities of default grade categories and an additional six grade categories for estimating 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 and small business loan portfolios.

Overview

General economic conditions remained weak throughout most of 2009, but showed some signs of moderation during 2010. These conditions negatively impacted the 2009 performance of a majority of the Bancorp s loan and lease products. Geographically, the Bancorp continues to experience the most stress in Michigan and Florida due to the decline in real estate values. Real estate value deterioration, as measured by the Home Price Index, was most prevalent in Florida due to past real estate price appreciation and related over-development, and in Michigan due in part to cutbacks in automobile manufacturing and the state s economic downturn. Among commercial portfolios, the homebuilder and developer and the remaining non-owner occupied commercial real estate portfolios remained under stress throughout 2009 and into 2010. Among consumer portfolios, residential mortgage and brokered home equity portfolios exhibited the most stress. Management suspended homebuilder and developer lending in the fourth quarter of 2007 and new commercial non-owner occupied real estate lending in the second quarter of 2008, discontinued the origination of brokered home equity products at the end of 2007 and tightened underwriting standards across both the commercial and consumer loan product offerings. Since the fourth quarter of 2008, in an effort to reduce loan exposure to the real estate and construction industries and obtain the highest realizable value, the Bancorp has sold or moved (in anticipation of a sale) certain commercial loans to held-for-sale. Throughout 2009 and into the second quarter of 2010, the Bancorp continued to aggressively engage in other loss mitigation strategies such as reducing credit commitments, restructuring certain commercial and consumer loans, tightening underwriting standards on commercial loans and across the consumer loan portfolio, as well as expanding commercial and consumer loan workout teams.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

Commercial Portfolio

The Bancorp s credit risk management strategy includes minimizing concentrations of risk through diversification. The Bancorp has commercial loan concentration limits based on industry, lines of business within the commercial segment and credit product type.

The risk within the commercial loan and lease portfolio is managed and monitored through an underwriting process utilizing detailed origination policies, continuous loan level reviews, 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 and non-owner occupied and construction lending. Included in the policies are maturity and amortization terms, maximum loan-to-values (LTV), minimum debt service coverage ratios, construction loan monitoring procedures, appraisal requirements, pre-leasing requirements (as applicable) and sensitivity and pro-forma analysis requirements. The Bancorp requires an appraisal of collateral be performed at origination and on an as-needed basis, in conformity with market conditions and regulatory requirements. Independent reviews are performed on appraisals to ensure the appraiser is qualified and consistency exists in the evaluation process.

The following table provides detail on commercial loan and leases 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 loans and leases.

TABLE 24: Commercial Loan and Lease Portfolio

		2010			2009	
As of June 30 ($ in millions)	**Outstanding**	**Exposure**	**Nonaccrual**	**Outstanding**	**Exposure**	**Nonaccrual**
By industry:						
Real estate	**$ 9,328**	**10,783**	**676**	$ 10,857	12,694	701
Manufacturing	**6,841**	**13,850**	**217**	7,105	13,660	116
Financial services and insurance	**4,104**	**8,391**	**92**	4,719	9,390	23
Construction	**3,270**	**4,728**	**484**	4,379	6,152	794
Healthcare	**3,063**	**4,931**	**39**	3,340	5,163	89
Business services	**2,691**	**4,755**	**74**	2,788	4,979	34
Retail trade	**2,550**	**5,496**	**75**	2,976	5,897	128
Wholesale trade	**2,547**	**5,150**	**49**	2,403	4,572	41
Transportation and warehousing	**2,338**	**2,842**	**50**	2,599	3,066	32
Other services	**1,047**	**1,471**	**34**	1,170	1,628	24
Accommodation and food	**929**	**1,443**	**56**	1,057	1,516	29
Mining	**741**	**1,237**	**18**	813	1,237	25
Entertainment and recreation	**734**	**899**	**9**	731	968	14
Individuals	**726**	**920**	**16**	965	1,194	32
Communication and information	**720**	**1,483**	**7**	887	1,475	13
Public administration	**580**	**837**	**9**	747	947	
Agribusiness	**529**	**676**	**69**	602	749	13
Utilities	**524**	**1,531**		480	1,240	
Other	**463**	**1,079**	**6**	221	486	2
Total	**$ 43,725**	**72,502**	**1,980**	$ 48,839	77,013	2,110

By loan size:

Less than $200,000	**3%**	**2**	**5**	3%	2	4
$200,000 to $1 million	**11**	**8**	**20**	11	9	19
$1 million to $5 million	**24**	**19**	**36**	24	20	39
$5 million to $10 million	**13**	**11**	**19**	23	21	18
$10 million to $25 million	**24**	**25**	**16**	15	16	14
Greater than $25 million	**25**	**35**	**4**	24	32	6
Total	**100%**	**100**	**100**	100	100	100
By state:						
Ohio	**27%**	**30**	**16**	28%	31	14
Michigan	**16**	**14**	**19**	16	15	18
Illinois	**8**	**9**	**9**	8	9	9
Florida	**8**	**7**	**23**	8	7	22
Indiana	**6**	**6**	**4**	7	7	7
Kentucky	**5**	**4**	**5**	5	5	5
North Carolina	**3**	**3**	**6**	3	3	6
Tennessee	**3**	**3**	**2**	2	2	4
Pennsylvania	**2**	**2**		2	2	
All other states	**22**	**22**	**16**	21	19	15
Total	**100%**	**100**	**100**	100%	100	100

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Quantitative and Qualitative Disclosures About Market Risk (continued)

The Bancorp has identified certain categories of loans which it believes represent a higher level of risk, as compared to the rest of the Bancorp s loan portfolio, due to economic or market conditions in the Bancorp s key lending areas. Tables 25 28 provide analysis of each of the categories of loans by state as of and for the three and six months ended June 30, 2010 and 2009.

TABLE 25: Non-Owner Occupied Commercial Real Estate

As of June 30, 2010 ($ in millions)					Net Charge-offs for June, 30 2010	
State	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 2,798	3,020	15	157	15	36
Michigan	1,935	1,999	4	143	31	72
Florida	1,363	1,425	10	295	24	57
Illinois	765	871	3	77	6	20
North Carolina	579	599	4	104	11	24
Indiana	479	502		34	2	12
All other states	932	1,024	4	120	13	25
Total	$ 8,851	9,440	40	930	102	246

TABLE 26: Non-Owner Occupied Commercial Real Estate

As of June 30, 2009 ($ in millions)					Net Charge-offs for June 30, 2009	
State	Outstanding	Exposure	90 Days Past Due	Nonaccrual	Three Months Ended	Six Months Ended
Ohio	$ 3,065	3,426	39	202	18	36
Michigan	2,195	2,432	39	168	27	52
Florida	1,766	1,902	26	325	39	88
Illinois	882	1,033	7	96	9	18
North Carolina	859	938	7	108	6	12
Indiana	600	684	1	78	1	2
All other states	1,164	1,505	21	167	30	61
Total	$ 10,531	11,920	140	1,144	130	269