FIFTH THIRD BANCORP
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2009 ANNUAL REPORT

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FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about Fifth Third Bancorp and/or the company as combined acquired entities within the meaning of 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, estimat forecast, projected, intends to, or may include other similar words or phrases such as believes, plans, trend, objective, continue, remain, or similar future or conditional verbs such as will, would, should, could, might, can, or similar verbs. There are a number of important factors that could cause future 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.

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

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 Consolidated Financial Statements, which are a part of this filing. Reference to the Bancorp incorporates the parent holding company and all consolidated subsidiaries.

TABLE 1: SELECTED FINANCIAL DATA

For the years ended December 31 ($ in millions, except per share data)	**2009**	2008	2007	2006	2005
Income Statement Data					
Net interest income *(a)*	**$3,373**	3,536	3,033	2,899	2,996
Noninterest income	**4,782**	2,946	2,467	2,012	2,374
Total revenue *(a)*	**8,155**	6,482	5,500	4,911	5,370
Provision for loan and lease losses	**3,543**	4,560	628	343	330
Noninterest expense	**3,826**	4,564	3,311	2,915	2,801
Net income (loss)	**737**	(2,113)	1,076	1,188	1,549
Net income (loss) available to common shareholders	**511**	(2,180)	1,075	1,188	1,548
Common Share Data					
Earnings per share, basic *(b)*	**$.73**	(3.91)	1.99	2.13	2.79
Earnings per share, diluted *(b)*	**.67**	(3.91)	1.98	2.12	2.77
Cash dividends per common share	**.04**	.75	1.70	1.58	1.46
Market value per share	**9.75**	8.26	25.13	40.93	37.72
Book value per share	**12.44**	13.57	17.18	18.00	16.98
Financial Ratios					
Return on assets	**.64%**	(1.85)	1.05	1.13	1.50
Return on average common equity	**5.6**	(23.0)	11.2	12.1	16.6
Average equity as a percent of average assets	**11.36**	8.78	9.35	9.32	9.06
Tangible equity *(c)*	**9.71**	7.86	6.05	7.79	6.87
Tangible common equity *(d)*	**6.45**	4.23	6.14	7.95	7.22
Net interest margin *(a)*	**3.32**	3.54	3.36	3.06	3.23
Efficiency *(a)*	**46.9**	70.4	60.2	59.4	52.1
Credit Quality					
Net losses charged off	**$2,581**	2,710	462	316	299
Net losses charged off as a percent of average loans and leases	**3.20%**	3.23	.61	.44	.45
Allowance for loan and lease losses as a percent of loans and leases	**4.88**	3.31	1.17	1.04	1.06
Allowance for credit losses as a percent of loans and leases *(e)*	**5.27**	3.54	1.29	1.14	1.16
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned *(f)(g)*	**4.22**	2.38	1.25	.61	.52
Average Balances					
Loans and leases, including held for sale	**$83,391**	85,835	78,348	73,493	67,737
Total securities and other short-term investments	**18,135**	14,045	12,034	21,288	24,999
Total assets	**114,856**	114,296	102,477	105,238	102,876
Transaction deposits *(h)*	**55,235**	52,680	50,987	49,678	48,177
Core deposits *(i)*	**69,338**	63,815	61,765	60,178	56,668
Wholesale funding *(j)*	**28,539**	36,261	27,254	31,691	33,615
Shareholders equity	**13,053**	10,038	9,583	9,811	9,317
Regulatory Capital Ratios					
Tier I capital	**13.31%**	10.59	7.72	8.39	8.35
Total risk-based capital	**17.48**	14.78	10.16	11.07	10.42
Tier I leverage	**12.43**	10.27	8.50	8.44	8.08
Tier I common equity	**7.00**	4.37	5.72	8.22	8.17

(a) Amounts presented on a fully taxable equivalent basis (FTE). The taxable equivalent adjustments for years ended December 31, 2009, 2008, 2007, 2006 and 2005 were $19 million, $22 million, $24 million, $26 million and $31 million, respectively.

(b) See Note 1 of the Notes to Consolidated Financial Statements for further information.

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

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

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

(f) Excludes nonaccrual loans held for sale.

(g) The Bancorp modified its nonaccrual policy in 2009 to exclude consumer troubled debt restructuring (TDR) loans less than 90 days past due as they were performing in accordance with restructuring terms. For comparability purposes, prior periods were adjusted to reflect this reclassification.
(h) Includes demand, interest checking, savings, money market and foreign office deposits.
(i) Includes transaction deposits plus other time deposits.
(j) Includes certificates $100,000 and over, other foreign office deposits, federal funds purchased, short-term borrowings and long-term debt.

TABLE 2: QUARTERLY INFORMATION (unaudited)

	2009				2008			
For the three months ended ($ in millions, except per share data)	**12/31**	**9/30**	**6/30**	**3/31**	12/31	9/30	6/30	3/31
Net interest income (FTE)	**$882**	**874**	**836**	**781**	$897	1,068	744	826
Provision for loan and lease losses	**776**	**952**	**1,041**	**773**	2,356	941	719	544
Noninterest income	**651**	**851**	**2,583**	**697**	642	717	722	864
Noninterest expense	**967**	**876**	**1,021**	**962**	2,022	967	858	715
Net income (loss)	**(98)**	**(97)**	**882**	**50**	(2,142)	(56)	(202)	286
Net income (loss) available to common shareholders	**(160)**	**(159)**	**856**	**(26)**	(2,184)	(81)	(202)	286
Earnings per share, basic *(a)*	**(.20)**	**(.20)**	**1.35**	**(.04)**	(3.78)	(.14)	(.37)	.54
Earnings per share, diluted *(a)*	**(.20)**	**(.20)**	**1.15**	**(.04)**	(3.78)	(.14)	(.37)	.54

(a) See Note 1 of the Notes to Consolidated Financial Statements for further information.

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

OVERVIEW

This overview of management s discussion and analysis highlights selected information in the financial results of the Bancorp and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting policies and estimates, you should carefully read this entire document. Each of these items could have an impact on the Bancorp s financial condition, results of operations and cash flows.

The Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At December 31, 2009, the Bancorp had $113 billion in assets, operated 16 affiliates with 1,309 full-service Banking Centers including 103 Bank Mart® locations open seven days a week inside select grocery stores and 2,358 Jeanie® ATMs in 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 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 keeping the decisions close to the customer and by emphasizing individual relationships. Through its affiliate operating model, individual managers from the banking center to the executive level are given the opportunity to tailor financial solutions for their customers.

The Bancorp s revenues are dependent on both net interest income and noninterest income. For the year ended December 31, 2009, net interest income, on a fully taxable equivalent (FTE) basis, and noninterest income provided 41% and 59% 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, mortgage banking revenue, corporate banking 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 expenses paid to the Federal Depository Insurance Corporation (FDIC).

On June 30, 2009, the Bancorp completed the sale (hereinafter the Processing Business Sale) of a majority interest in its merchant acquiring and financial institutions processing business. As a result of the sale, the Bancorp recognized a pre-tax gain of approximately $1.8 billion. Under the terms of the sale, Advent International acquired an approximate 51% interest in the business. The Bancorp accounts for the retained noncontrolling interest in the business under the equity method of accounting.

Earnings Summary

During 2009, the Bancorp continued to be affected by a challenging credit environment and the continued economic slowdown. The Bancorp s net income available to common shareholders was $511 million, or $0.67 per diluted share, which included $226 million in preferred stock dividends. The Bancorp s net loss available to common shareholders was $2.2 billion, or $3.91 per diluted share, for 2008, which included $67 million in preferred stock dividends. The Bancorp s results for both years reflect a number of significant items.

Such items affecting 2009 include:

- $1.8 billion of noninterest income from the Processing Business Sale to Advent International;
- $244 million of noninterest income from the sale of the Bancorp s Visa, Inc. Class B common shares and a $73 million reduction to noninterest expense from the release of Visa litigation reserves;
- $136 million of net interest income due to the accretion of purchase accounting adjustments related to loans and deposits from acquisitions during 2008;
- $106 million income tax benefit from the decision to surrender one of the Bancorp s bank owned life insurance (BOLI) policies and the determination that previously recorded losses on the policy are now tax deductible;
- $55 million of noninterest expense from a special assessment by the FDIC;
- $55 million income tax benefit from an agreement with the Internal Revenue Service (IRS) to settle all of the Bancorp s disputed leverage leases for all open years;
- $53 million in charges to other noninterest income reflecting reserves recorded in connection with the intent to surrender one of the Bancorp s BOLI policies as well as losses related to market value declines;
- $35 million increase to net income available to common shareholders from the exchange of 63% of outstanding Series G preferred shares for approximately 60 million common shares and $230 million in cash; and
- Preferred stock dividends of $226 million in 2009 compared to $67 million in 2008 due to the issuance of senior preferred stock and related warrants on December 31, 2008 to the U.S. Department of Treasury (U.S. Treasury) under the Capital Purchase Program (CPP) in exchange for $3.4 billion in cash.

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For comparison purposes, such items affecting 2008 include:

- $965 million of noninterest expense due to a goodwill impairment charge;
- $358 million of net interest income due to the accretion of purchase accounting adjustments related to loans and deposits from acquisitions during 2008;
- $273 million of other noninterest income related to the redemption of a portion of Fifth Third s ownership interests in Visa, Inc. and $99 million in net reductions to noninterest expense to reflect the recognition of the Bancorp s proportional share of the Visa escrow account;
- $229 million after-tax impact of charges relating to a change in the projected timing of cash flows relating to income taxes for certain leveraged leases;
- $215 million reduction to other noninterest income to reflect a decline in the cash surrender value of one of the Bancorp s BOLI policies;
- $104 million reduction to noninterest income due to other-than-temporary impairment (OTTI) charges on Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) preferred stock and certain bank trust preferred securities; and
- $76 million of other noninterest income, partially offset by $36 million in related litigation expense, due to the successful resolution of a prior court case.

Net interest income (FTE) decreased to $3.4 billion, from $3.5 billion in 2008. The primary reason for the five percent decrease in net interest income was a 21 basis point (bp) decline in the net interest rate spread. Additionally, the benefit from the accretion of purchase accounting adjustments related to the 2008 acquisition of First Charter was $136 million in 2009, compared to $358 million in 2008. Net interest margin was 3.32% in 2009, a decrease of 22 bp from 2008.

Noninterest income increased 62%, from $2.9 billion to $4.8 billion, in 2009, driven primarily by the Processing Business Sale in the second quarter of 2009, which resulted in a pre-tax gain of $1.8 billion, as well as a $244 million gain related to the sale of the Bancorp s Visa, Inc. Class B shares and gains on mortgages sold. Mortgage banking net revenue increased $354 million resulting from strong growth in originations, which were up 89% to $21.7 billion in 2009 compared to $11.5 billion in 2008. Card and processing revenue decreased 33% due to the Processing Business Sale in the second quarter of 2009. Corporate banking revenue decreased 10% largely due to a lower volume of interest rate derivatives sales and foreign exchange revenue, partially offset by growth in institutional sales and business lending fees.

Noninterest expense decreased $738 million compared to 2008. Noninterest expense in 2008 included a $965 million charge due to goodwill impairment. Excluding this charge, noninterest expense increased $227 million due primarily to an increase of $196 million of FDIC insurance and other taxes as the result of an

increase in deposit insurance and participation in the Temporary Liquidity Guarantee Program (TLGP), as well as increased loan related expenses from higher mortgage origination volume and expenses incurred from the management of problem assets. These amounts were partially offset by lower card and processing expense due to the Processing Business Sale on June 30, 2009. In addition to the goodwill impairment charge, noninterest expense in 2008 included $36 million in litigation expenses due to the successful resolution of a prior court case, offset by a $99 million reduction to expenses related to the reversal of a portion of the Visa litigation reserve and Visa s funding of an escrow account. For further information on the change in assessment rates during 2009, the FDIC special assessment in the second quarter of 2009 and the TLGP, see the noninterest expense section of Management s Discussion and Analysis.

The Bancorp does not originate subprime mortgage loans, does not hold credit default swaps and does not hold asset-backed securities backed by subprime mortgage loans in its securities portfolio. However, the Bancorp has exposure to disruptions in the capital markets and weakening economic conditions. Throughout 2009, the Bancorp continued to be affected by rising unemployment rates, weakened housing markets, particularly in the upper Midwest and Florida, and a challenging credit environment. Credit trends began to show signs of stabilization in the fourth quarter of 2009 and, as a result, the provision for loan and lease losses decreased to $3.5 billion for the year ended December 31, 2009 compared to $4.6 billion during 2008. Net charge-offs as a percent of average loans and leases remained steady at 3.20% in 2009 compared to 3.23% in 2008. At December 31, 2009, nonperforming assets as a percent of loans, leases and other assets, including other real estate owned (excluding nonaccrual loans held for sale) increased to 4.22% from 2.38% at December 31, 2008. Refer to the Credit Risk Management section in Management s Discussion and Analysis for more information on credit quality.

The Bancorp continued to take actions to strengthen its capital position in 2009. On June 4, 2009, the Bancorp completed an at-the-market offering resulting in the sale of $1 billion of its common shares at an average share price of $6.33. In addition, on June 17, 2009, the Bancorp completed its offer to exchange shares of its common stock and cash for shares of its Series G convertible preferred stock. As a result, the Bancorp recognized an increase in net income available to common shareholders of $35 million based upon the difference in carrying value of the Series G preferred shares and the fair value of the common shares and cash issued. See the Capital Management section of Management s Discussion and Analysis for further information on the Bancorp s capital transactions.

The Bancorp s capital ratios exceed the well-capitalized guidelines as defined by the Board of Governors of the Federal Reserve System (FRB). As of December 31, 2009, the Tier 1 capital ratio was 13.31%, the Tier 1 leverage ratio was 12.43% and the total risk-based capital ratio was 17.48%.

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NON-GAAP FINANCIAL MEASURES

The Bancorp considers various measures when evaluating capital utilization and adequacy, including the tangible equity ratio and tangible common equity ratio, in addition to capital ratios defined by banking regulators. These calculations are intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because 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.

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 Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

The following table reconciles Non-GAAP financial measures to U.S. GAAP as of December 31:

TABLE 3: NON-GAAP FINANCIAL MEASURES

($ in millions)	**2009**	2008
Total shareholders equity	**$13,497**	12,077
Less:		
Goodwill	**(2,417)**	(2,624)
Intangible assets	**(106)**	(168)
Accumulated other comprehensive income	**(241)**	(98)
Tangible equity *(a)*	**10,733**	9,187
Less: preferred stock	**(3,609)**	(4,241)
Tangible common equity *(b)*	**7,124**	4,946
Total assets	**113,380**	119,764
Less:		
Goodwill	**(2,417)**	(2,624)
Intangible assets	**(106)**	(168)
Accumulated other comprehensive income, before tax	**(370)**	(151)
Tangible assets, excluding unrealized gains / losses *(c)*	**$110,487**	116,821
Ratios:		
Tangible equity *(a) / (c)*	**9.71%**	7.86%
Tangible common equity *(b) / (c)*	**6.45%**	4.23%

RECENT ACCOUNTING STANDARDS

Note 1 of the Notes to Consolidated Financial Statements provides a discussion of the significant new accounting standards adopted by the Bancorp during 2009 and 2008 and the expected impact of significant accounting standards issued, but not yet required to be adopted.

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

CRITICAL ACCOUNTING POLICIES

The Bancorp s Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. Certain accounting policies require management to exercise judgment in determining methodologies, economic assumptions and estimates that may materially affect the value of the Bancorp s assets or liabilities and results of operations and cash flows. The Bancorp s critical accounting policies include the accounting for allowance for loan and lease losses, reserve for unfunded commitments, income taxes, valuation of servicing rights, fair value measurements and goodwill. No material changes were made to the valuation techniques or models described below during the year ended December 31, 2009.

Allowance for Loan and Lease Losses

The Bancorp maintains an allowance to absorb probable loan and lease losses inherent in the portfolio. The allowance is maintained at a level the Bancorp considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectability and historical loss experience of loans and leases. Credit losses are charged and recoveries are credited to the allowance. Provisions for loan and lease losses are based on the Bancorp s review of the historical credit loss experience and such factors that, in management s judgment, deserve consideration under existing economic conditions in estimating probable credit losses. In determining the appropriate level of the allowance, the Bancorp estimates losses using a range derived from base and conservative estimates. The Bancorp s strategy for credit risk management includes a combination of conservative exposure limits significantly below legal lending limits and conservative underwriting, documentation and collections standards. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

Larger commercial loans that exhibit probable or observed credit weakness are subject to individual review. When individual loans are impaired, allowances are determined based on management s estimate of the borrower s ability to repay the loan given the availability of collateral and other sources of cash flow, as well as evaluation of legal options available to the Bancorp. Any allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, the fair value of the underlying collateral or readily observable secondary market values. The Bancorp evaluates the collectability of both principal and interest when assessing the need for a loss accrual. Historical loss rates are applied to commercial loans that are not impaired or are impaired but smaller than an established threshold and thus not subject to individual review. The loss rates are derived from a migration analysis, which tracks the historical net charge-off experience sustained on loans according to their internal risk grade. The risk grading system currently utilized for allowance analysis purposes encompasses ten categories.

Homogenous loans and leases, such as consumer installment, revolving and residential mortgage loans, are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks. Allowances are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history by loan category. Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management s judgment, are necessary to reflect losses inherent in the portfolio. Factors that management considers in the analysis include the effects of the national and local economies; trends in the nature and volume of delinquencies, charge-offs and

nonaccrual loans; changes in loan mix; credit score migration comparisons; asset quality trends; risk management and loan administration; changes in the internal lending policies and credit standards; collection practices; and examination results from bank regulatory agencies and the Bancorp s internal credit examiners.

The Bancorp s current methodology for determining the allowance for loan and lease losses is based on historical loss rates, current credit grades, specific allocation on impaired commercial credits above specified thresholds and other qualitative adjustments. Allowances on individual loans and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience. An unallocated allowance is maintained to recognize the imprecision in estimating and measuring loss when evaluating allowances for individual loans or pools of loans.

Loans acquired by the Bancorp through a purchase business combination are recorded at fair value as of the acquisition date. The Bancorp does not carry over the acquired company s allowance for loan and lease losses, nor does the Bancorp add to its existing allowance for the acquired

loans as part of purchase accounting.

The Bancorp s primary market areas for lending are the Midwestern and Southeastern regions of the United States. When evaluating the adequacy of allowances, consideration is given to these regional geographic concentrations and the closely associated effect changing economic conditions have on the Bancorp s customers.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the Consolidated Balance Sheets. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience, credit risk grading and historical loss rates based on credit grade migration. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the Consolidated Statements of Income.

Income Taxes

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

Deferred income tax assets and liabilities are determined using the balance sheet method and are reported in other assets and accrued taxes, interest and expenses, respectively in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and recognizes enacted changes in tax rates and laws. Deferred tax assets are recognized to the extent they exist and are subject to a valuation allowance based on management s judgment that realization is more-likely-than-not. This analysis is performed on a quarterly basis and includes an evaluation of all positive and negative evidence to determine whether realization is more-likely-than-not.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Consolidated Balance Sheets. The Bancorp

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evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period s income tax expense and can be significant to the operating results of the Bancorp. For additional information on income taxes, see Note 20 of the Notes to Consolidated Financial Statements.

Valuation of Servicing Rights

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

The Bancorp monitors risk and adjusts its valuation allowance as necessary to adequately reserve for impairment in the servicing portfolio. For purposes of measuring impairment, the mortgage servicing rights are stratified into classes based on the financial asset type and interest rates. Fees received for servicing loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in noninterest income in the Consolidated Statements of Income as loan payments are received. Costs of servicing loans are charged to expense as incurred. For additional information on servicing rights, see Note 11 of the Notes to Consolidated Financial Statements.

Fair Value Measurements

The Bancorp measures fair value in accordance with U.S. GAAP, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques the Bancorp uses to measure fair value include the market approach, income approach and cost approach. The market approach uses prices or relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach involves discounting future amounts to a single present amount and is based on current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of the asset.

U.S. GAAP establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument s fair value

measurement. The three levels within the fair value hierarchy are described as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bancorp has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Bancorp s own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Bancorp s own financial data such as internally developed pricing models and discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant

management judgment.

The Bancorp s fair value measurements involve various valuation techniques and models, which involve inputs that are observable, when available, and include the following significant instruments: available-for-sale and trading securities, residential mortgage loans held for sale and certain derivatives. The following is a summary of valuation techniques utilized by the Bancorp for its significant assets and liabilities measured at fair value on a recurring basis.

Available-for-sale and trading securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, asset-backed securities and Variable Rate Demand Notes (VRDNs). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 consist primarily of residual interests in securitizations of automobile loans. These residual interests are valued using discounted cash flow models that integrate significant unobservable inputs, including discount rates, prepayment speeds, and loss rates which are estimated based on actual performance of similar loans transferred in previous securitizations. Trading securities classified as Level 3 consist of auction rate securities. Due to the illiquidity in the market for these types of securities at December 31, 2009, the Bancorp measured fair value using a discount rate commensurate with the assumed holding period.

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Residential mortgage loans held for sale

For residential mortgage loans held for sale, fair value is estimated based upon mortgage-backed securities prices and spreads to those prices or, for certain assets, discounted cash flow models that may incorporate the anticipated portfolio composition, credit spreads of asset-backed securities with similar collateral, and market conditions. Therefore, these loans are classified within Level 2 of the valuation hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange. Most derivative contracts are valued using discounted cash flow or other models that incorporate current market interest rates, credit spreads assigned to the derivative counterparties, and other market parameters. The majority of the Bancorp s derivative positions are valued utilizing models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic and structured interest rate swaps and options. Derivatives that are valued based upon models with significant unobservable market parameters are classified within Level 3 of the valuation hierarchy. At December 31, 2009, derivatives classified as Level 3, which are valued using an option-pricing model containing unobservable inputs, consisted primarily of warrants and put rights associated with the Processing Business Sale and a total return swap associated with the Bancorp s sale of its Visa, Inc. Class B shares. Level 3 derivatives also include interest rate lock commitments, which utilize internally generated loan closing rate assumptions as a significant unobservable input in the valuation process.

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

In addition to the assets and liabilities measured at fair value on a recurring basis, the Bancorp measures servicing rights, certain loans and long-lived assets at fair value on a nonrecurring basis. Refer to Note 27 of the Notes to Consolidated Financial Statements for further information on fair value measurements.

Goodwill

Business combinations entered into by the Bancorp typically include the acquisition of goodwill. U.S. GAAP requires goodwill to be tested for impairment at the Bancorp s reporting unit level on an annual basis, which for the Bancorp is September 30, and more frequently if events or circumstances indicate that there may be impairment. The Bancorp has determined that its segments qualify as reporting units under U.S. GAAP. Impairment exists when a reporting unit s carrying amount of goodwill exceeds its implied fair value, which is determined through a two-step impairment test. The first step (Step 1) compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step (Step 2) of the goodwill impairment test is performed to measure the impairment loss amount, if any.

The fair value of a reporting unit is the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Since none of the Bancorp s reporting units are publicly traded, individual reporting unit fair value determinations cannot be directly correlated to the Bancorp s stock price. To determine the fair value of a reporting unit, the Bancorp employs an income-based approach, utilizing the reporting unit s forecasted cash flows (including a terminal value approach to estimate cash flows beyond the final year of the forecast) and the reporting unit s estimated cost of equity as the discount rate. Additionally, the Bancorp determines its market capitalization based on the average of the closing price of the Bancorp s stock during the month including the measurement date, incorporating an additional control premium, and allocates this market-based fair value measurement to the Bancorp s reporting units in order to corroborate the results of the income approach.

When required to perform Step 2, the Bancorp compares the implied fair value of a reporting unit s goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss equal to that excess amount is recognized. An impairment loss recognized cannot exceed the carrying amount of that goodwill and cannot be reversed even if the fair value of the reporting unit recovers.

During Step 2, the Bancorp determines the implied fair value of goodwill for a reporting unit by assigning the fair value of the reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of

goodwill. This assignment process is only performed for purposes of testing goodwill for impairment. The Bancorp does not adjust the carrying values of recognized assets or liabilities (other than goodwill, if appropriate), nor recognize previously unrecognized intangible assets in the Consolidated Financial Statements as a result of this assignment process. Refer to Note 9 of the Notes to Consolidated Financial Statements for further information regarding the Bancorp s goodwill.

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RISK FACTORS

The risks listed here are not the only risks that Fifth Third faces. Additional risks that are not presently known or that Fifth Third presently deems to be immaterial could also have a material, adverse impact on our financial condition, the results of our operations, or our business.

RISKS RELATING TO ECONOMIC AND MARKET CONDITIONS

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

If the strength of the U.S. economy in general and the strength of the local economies in which Fifth Third conducts operations continues to decline or does not improve in a reasonable time frame, this could result in, among other things, a deterioration in credit quality or a reduced demand for credit, including a resultant effect on Fifth Third s loan portfolio and allowance for loan and lease losses and in the receipt of lower proceeds from the sale of loans and foreclosed properties. A significant portion of Fifth Third s residential mortgage and commercial real estate loan portfolios are comprised of borrowers in Michigan, Northern Ohio and Florida, which markets have been particularly adversely affected by job losses, declines in real estate value, declines in home sale volumes, and declines in new home building. These factors could result in higher delinquencies, greater charge-offs and increased losses on the sale of foreclosed real estate in future periods, which would materially adversely affect Fifth Third s financial condition and results of operations.

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

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

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

Fifth Third enters into and maintains trading and investment positions in the capital markets on its own behalf and manages investment positions on behalf of its customers. These investment positions include derivative financial instruments. The revenues and profits Fifth Third derives from managing proprietary and customer trading and investment positions are dependent on market prices. If Fifth Third does not correctly anticipate market changes and trends, Fifth Third may experience a decline in investment advisory revenue or investment or trading losses that may materially affect Fifth Third. Losses on behalf of its customers could expose Fifth Third to litigation, credit risks or loss of revenue from those customers. Additionally, substantial

losses in Fifth Third s trading and investment positions could lead to a loss with respect to those investments and may adversely affect cash flows and funding costs.

The removal or reduction in stimulus activities sponsored by the Federal Government and its agents may have a negative impact on Fifth Third s results and operations.

The Federal Government has intervened in an unprecedented manner to stimulate economic growth. Some of these activities have included the following:

- Target fed funds rates which have remained close to zero percent;

- Mortgage rates that have remained at historical lows in part due to the Federal Reserve Bank of New York s $1.25 trillion mortgage-backed securities purchase program;
- Bank funding that has remained stable through an increase in FDIC deposit insurance to a covered limit of $250,000 per account from the previous coverage limit of $100,000; and
- Housing demand that has been stimulated by homebuyer tax credits.

The expiration or rescission of any of these programs may have an adverse impact on Fifth Third s operating results by increasing interest rates, increasing the cost of funding, and reducing the demand for loan products, including mortgage loans.

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

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

Fifth Third s stock price is volatile.

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

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

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

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RISKS RELATING TO OUR GENERAL BUSINESS

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

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

Fifth Third must maintain adequate sources of funding and liquidity.

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

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

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

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

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

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

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

subsidiary s creditors. Limitations on Fifth Third Bancorp s ability to receive dividends from its subsidiaries could have a material adverse effect on Fifth Third Bancorp s liquidity and ability to pay dividends on stock or interest and principal on its debt.

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

The financial services industry in which Fifth Third operates is highly competitive. Fifth Third competes not only with commercial banks, but also with insurance companies, mutual funds, hedge funds, and other companies offering financial services in the U.S., globally and over the internet. Fifth Third competes on the basis of several factors, including capital, access to capital, revenue generation, products, services, transaction execution, innovation, reputation and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms. Recently, this trend accelerated considerably, as several major U.S. financial institutions consolidated, were forced to merge, received substantial government assistance or were placed into conservatorship by the U.S. Government. These developments could result in Fifth Third s competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. Fifth Third may experience pricing pressures as a result of these factors and as some of its competitors seek to increase market share by reducing prices.

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

The Bancorp s ability to access the capital markets is important to its overall funding profile. This access is affected by the ratings assigned by rating agencies to the Bancorp, certain of its subsidiaries and particular classes of securities they issue. The interest rates that the Bancorp pays on its securities are also influenced by, among other things, the credit ratings that it, its subsidiaries and/or its securities receive from recognized rating agencies. A downgrade to the Bancorp s, or its subsidiaries , credit rating could affect its ability to access the capital markets, increase its borrowing costs and negatively impact its profitability. A ratings downgrade to the Bancorp, its subsidiaries or their securities could also create obligations or liabilities to the Bancorp under the terms of its outstanding securities that could increase the Bancorp s costs or otherwise have a negative effect on the Bancorp s results of operations or financial condition. Additionally, a downgrade of the credit rating of any particular security issued by the Bancorp or its subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold. During 2009, Moody s Investors Service downgraded the Bancorp s issuer rating to Baa1 from A2 and downgraded the long term debt rating and deposit ratings for the Bancorp s bank subsidiary to A2 from A1. Standard & Poor s Investo Service downgraded the Bancorp s issuer rating to BBB from A- and downgraded the long term debt rating and deposit ratings for the Bancorp s bank subsidiary to BBB+ from A. DBRS Investors Service downgraded the Bancorp s issuer rating to A from AAL and downgraded the lo term debt rating and deposit ratings for the Bancorp s bank subsidiary to AH from AA.

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

As Fifth Third continues to grow, its success depends, in large part, on its ability to attract and retain key individuals. Competition for qualified candidates in the activities and markets that Fifth Third serves is great and Fifth Third may not be able to

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hire these candidates and retain them. If Fifth Third is not able to hire or retain these key individuals, Fifth Third may be unable to execute its business strategies and may suffer adverse consequences to its business, operations and financial condition.

Pursuant to the standardized terms of the Treasury Capital Purchase program (CPP), among other things, Fifth Third has agreed to institute certain restrictions on the compensation of certain senior management positions, which could have an adverse effect on Fifth Third s ability to hire or retain the most qualified senior management. It is possible that the U.S. Treasury may, as it is permitted to do, impose further requirements on Fifth Third. In 2009, the Federal Reserve issued a comprehensive proposal intended to ensure that a bank organization s incentive compensation policies don t encourage excessive risk taking. In addition, the FDIC recently issued a request for comments on whether banks with compensation plans that encourage excessive risk taking should be charged at higher deposit assessment rates than such banks would otherwise be charged. If Fifth Third is unable to attract and retain qualified employees, or do so at rates necessary to maintain its competitive position, or if compensation costs required to attract and retain employees become more expensive, Fifth Third s performance, including its competitive position, could be materially adversely affected.

Fifth Third s mortgage banking revenue can be volatile from quarter to quarter.

Fifth Third earns revenue from the fees Fifth Third receives for originating mortgage loans and for servicing mortgage loans. When rates rise, the demand for mortgage loans tends to fall, reducing the revenue Fifth Third receives from loan originations. At the same time, revenue from our mortgage servicing rights (MSRs) can increase through increases in fair value. When rates fall, mortgage originations tend to increase and the value of our MSRs tends to decline, also with some offsetting revenue effect. Even though they can act as a natural hedge, the hedge is not perfect, either in amount or timing. For example, the negative effect on revenue from a decrease in the fair value of residential MSRs is immediate, but any offsetting revenue benefit from more originations and the MSRs relating to the new loans would accrue over time. It is also possible that, because of the recession and deteriorating housing market, even if interest rates were to fall, mortgage originations may also fall or any increase in mortgage originations may not be enough to offset the decrease in the MSRs value caused by the lower rates.

Fifth Third typically uses derivatives and other instruments to hedge our mortgage banking interest rate risk. Fifth Third generally does not hedge all of our risks, and the fact that Fifth Third attempts to hedge any of the risks does not mean Fifth Third will be successful. Hedging is a complex process, requiring sophisticated models and constant monitoring, and is not a perfect science. Fifth Third may use hedging instruments tied to U.S. Treasury rates, LIBOR or Eurodollars that may not perfectly correlate with the value or income being hedged. Fifth Third could incur significant losses from our hedging activities. There may be periods where Fifth Third elects not to use derivatives and other instruments to hedge mortgage banking interest rate risk.

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

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. Two of Fifth Third s most critical estimates are the level of the allowance for loan and lease losses and the valuation of mortgage servicing rights. Due to the uncertainty of estimates involved, Fifth Third

may have to significantly increase the allowance for loan and lease losses and/or sustain credit losses that are significantly higher than the provided allowance and could recognize a significant provision for impairment of its mortgage servicing rights. If Fifth Third s allowance for loan and lease losses is not adequate, Fifth Third s business, financial condition, including its liquidity and capital, and results of operations could be materially adversely affected. For more information on the sensitivity of these estimates, please refer to the Critical Accounting Policies section.

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

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

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

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

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

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

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

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

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

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

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

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

Fifth Third is exposed to operational and reputational risk.

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

Negative public opinion can result from Fifth Third s actual or alleged conduct in activities, such as lending practices, data security, corporate governance and acquisitions, and may damage Fifth Third s reputation. Negative public opinion has been observed in relation to banks participating in the Treasury s Troubled Asset Relief Program (TARP), in which Fifth Third was a participant. Should Fifth Third not be able to repay its TARP borrowing or make repayment subsequent to its regional peers, Fifth Third may be the focus of increased negative attention. Additionally, actions taken by government regulators and community organizations may also damage Fifth Third s reputation. This negative public opinion can adversely affect Fifth Third s ability to attract and keep customers and can expose it to litigation and regulatory action.

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

disruptions may interfere with service to Fifth Third s customers and result in a financial loss or liability.

The inability of FTPS to succeed as a stand-alone entity could have a negative impact on Fifth Third s operating results and financial condition.

During the second quarter of 2009, Fifth Third sold an approximate 51% interest in Fifth Third Processing Solutions (FTPS) to Advent International. Prior to the sale, FTPS relied on Fifth Third to support its operating and administrative functions. Fifth Third has entered into agreements to provide FTPS certain services during the deconversion period. Fifth Third s operating results may suffer if the cost of providing these services exceeds the amount received from FTPS. As part of the sale, FTPS also assumed loans owed Fifth Third. Repayment of these loans is contingent on future cash flows and profitability at FTPS.

In connection with the sale, Fifth Third provided Advent with certain put rights that are exercisable in the event of three unlikely circumstances. Based on Fifth Third s current ownership share in FTPS of approximately 49%, FTPS is accounted for under the equity method and is not consolidated. The exercise of the put rights would result in FTPS becoming a wholly owned subsidiary of Fifth Third. As a result, FTPS would

be consolidated and would subject Fifth Third to the risks inherent in integrating a business. Additionally, such a change in the accounting treatment for FTPS may adversely impact Fifth Third s capital.

Weather related events or other natural disasters may have an effect on the performance of our loan portfolios, especially in our coastal markets, thereby adversely impacting our results of operations.

Fifth Third s footprint stretches from the upper midwestern to lower southeastern regions of the United States. This area has experienced weather events including hurricanes and other natural disasters. The nature and level of these events and the impact of global climate change upon their frequency and severity cannot be predicted. If large scale events occur, they may significantly impact our loan portfolios by damaging properties pledged as collateral as well as impairing our borrower s ability to repay their loans.

RISKS RELATED TO THE LEGAL AND REGULATORY ENVIRONMENT

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

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

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

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

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies placing increased focus on and scrutiny of the financial services industry. The U.S. Government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis. In addition to the Bancorp s participation in Treasury s CPP and CAP, the U.S. Government has taken steps

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

that include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances, and increasing insured deposits. These programs subject the Bancorp and other financial institutions who have participated in these programs to additional restrictions, oversight and/or costs that may have an impact on the Bancorp s business, financial condition, results of operations or the price of its common stock.

Compliance with such regulation and scrutiny may significantly increase the Bancorp s costs, impede the efficiency of its internal business processes, require it to increase its regulatory capital and limit its ability to pursue business opportunities in an efficient manner. The Bancorp also will be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. The increased costs associated with anticipated regulatory and political scrutiny could adversely impact the Bancorp s results of operations.

New proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry. In January, the Obama administration proposed a tax on the fifty largest bank holding companies in the United States designed to recover losses incurred as a result of the Treasury s TARP program. The proposal has not been finalized and the amount of the possible tax has not been determined. Federal and state regulatory agencies also frequently adopt changes to their regulations and/or change the manner in which existing regulations are applied. The Bancorp cannot predict whether any pending or future legislation will be adopted or the substance and impact of any such new legislation on the Bancorp. Additional regulation could affect the Bancorp in a substantial way and could have an adverse effect on its business, financial condition and results of operations.

Deposit insurance premiums levied against Fifth Third may increase if the number of bank failures do not subside or the cost of resolving failed banks increases.

The FDIC maintains a Deposit Insurance Fund (DIF) to resolve the cost of bank failures. The DIF is funded by fees assessed on insured depository institutions including Fifth Third. The magnitude and cost of resolving an increased number of bank failures have reduced the DIF. In 2009, the FDIC collected a special assessment to replenish the DIF. In addition, a prepayment of an estimated amount of future deposit insurance premiums was made on December 30, 2009. Future deposit premiums paid by Fifth Third depend on the level of the DIF and the magnitude and cost of future bank failures.

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

The Bancorp is subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of its operations and limit the businesses in which the Bancorp may engage. These laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact the Bancorp or its ability to increase the value of its business. Additionally, actions by regulatory agencies or significant litigation against the Bancorp could cause it to devote significant time and resources to defending itself and may lead to penalties that materially affect the Bancorp and its shareholders. Future changes in the laws, including tax laws, or, as a participant in the Capital Purchase Program under EESA, the rules and regulations promulgated

under EESA or ARRA, or regulations or their interpretations or enforcement may also be materially adverse to the Bancorp and its shareholders or may require the Bancorp to expend significant time and resources to comply with such requirements.

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

Fifth Third and certain of its directors and officers have been named from time to time as defendants in various class actions and other litigation relating to Fifth Third s business and activities.

Past, present and future litigation have included or could include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Fifth Third is also involved from time to time in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding its business. These matters also could result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Like other large financial institutions and companies, Fifth Third is also subject to risk

from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory action against Fifth Third could materially adversely affect its business, financial condition or results of operations and/or cause significant reputational harm to its business.

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

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

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STATEMENTS OF INCOME ANALYSIS

Net Interest Income

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

Table 5 presents the components of net interest income, net interest margin and net interest spread for 2009, 2008 and 2007. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale securities included in other assets. Table 6 provides the relative impact of changes in the balance sheet and changes in interest rates on net interest income.

Net interest income (FTE) was $3.4 billion for the year ended December 31, 2009, compared to $3.5 billion in 2008. Net interest income was affected by the amortization and accretion of premiums and discounts on acquired loans and deposits, primarily from the First Charter Acquisition, that increased net interest income by $136 million during 2009, compared to an increase of $358 million during 2008. Additionally, 2008 was impacted by the recalculation of cash flows on certain leveraged leases that reduced interest income on commercial leases by approximately $130 million. Excluding these impacts, net interest income decreased $71 million, or two percent, in 2009 compared to 2008. Net interest income was negatively impacted by the decline in market interest rates over the year as the Bancorp s assets have repriced faster than its liabilities. The net interest rate spread was down 21 bp to 3.00% in 2009, which led to a decline in net interest income of $284 million compared to 2008. Partially offsetting the negative impact of declining market rates were improved pricing spreads on loan originations as well as a shift in funding composition to lower cost core deposits, as higher priced term deposits issued in the second half of 2008 continued to mature throughout 2009. For the year ended December 31, 2009, net interest income was further impacted by an increase of $1.6

billion in average interest-earning assets and a decline of $5.0 billion in average interest-bearing liabilities driven by growth in the Bancorp s free-funding position. This led to an increase of $121 million in net interest income.

Net interest margin was 3.32% in 2009, compared to 3.54% in 2008. For 2009 and 2008, the accretion of the discounts on acquired loans and deposits increased the net interest margin by 14 bp and 36 bp, respectively. Additionally, 2008 included the negative impact of the leveraged lease charge that reduced the net interest margin by 13 bp. Exclusive of the accretion of discounts on acquired loans and deposits and the leveraged lease charge, net interest margin was down 13 bp on a year-over-year basis due to the previously mentioned decline in net interest rate spread and the growth in average interest earning assets.

Average interest-earning assets increased 2% from 2008 primarily due to an increase in the average investment portfolio, partially offset by decreases in average commercial loans. The increase in the average investment portfolio of $4.1 billion, or 29%, over 2008 was due to an increase in purchases of agency mortgage-backed securities and automobile asset-backed securities, the purchase of investment grade commercial paper from an unconsolidated qualifying special purpose entity (QSPE) and an increase in VRDNs held in the Bancorp s trading portfolio. The decrease in average total commercial loans of five percent was due primarily to the decrease in commercial construction loans as a result of the suspension of new originations on non-owner occupied commercial real estate loans in the second quarter of 2008. Additionally, the decrease in commercial loans and commercial mortgage loans was due to decreases in line utilization, overall customer demand for commercial loan products, net charge-offs as well as implementation of tighter underwriting standards.

Interest income (FTE) from loans and leases decreased $1.0 billion compared to 2008. Exclusive of the accretion of discounts on acquired loans in 2009 and 2008 and the leveraged lease charge during 2008, interest income (FTE) from loans and leases decreased $925 million, or 20%, compared to the prior year. The year-over-year decrease in interest income from loans and leases is a result of a three percent decline in average loans as well as the repricing of variable rate loans in a declining rate environment, which led to a 104 bp decrease in average rates. Interest

income (FTE) from investment securities and short-term investments increased nine percent compared to 2008. The increase in interest income from investment securities was a result of the 29% increase in the average investment portfolio partially offset by a 77 bp decrease in the weighted-average yield.

TABLE 4: CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 ($ in millions, except per share data)	**2009**	2008	2007	2006	2005
Interest income (FTE)	**$4,687**	5,630	6,051	5,981	5,026
Interest expense	**1,314**	2,094	3,018	3,082	2,030
Net interest income (FTE)	**3,373**	3,536	3,033	2,899	2,996
Provision for loan and lease losses	**3,543**	4,560	628	343	330
Net interest income (loss) after provision for loan and lease losses (FTE)	**(170)**	(1,024)	2,405	2,556	2,666
Noninterest income	**4,782**	2,946	2,467	2,012	2,374
Noninterest expense	**3,826**	4,564	3,311	2,915	2,801
Income (loss) before income taxes and cumulative effect (FTE)	**786**	(2,642)	1,561	1,653	2,239
Fully taxable equivalent adjustment	**19**	22	24	26	31
Applicable income taxes	**30**	(551)	461	443	659
Income (loss) before cumulative effect	**737**	(2,113)	1,076	1,184	1,549
Cumulative effect of change in accounting principle, net of tax	**-**	-	-	4	-
Net income (loss)	**737**	(2,113)	1,076	1,188	1,549
Dividends on preferred stock	**226**	67	1	-	1
Net income (loss) available to common shareholders	**$511**	(2,180)	1,075	1,188	1,548
Earnings per share, basic	**$0.73**	(3.91)	1.99	2.13	2.79
Earnings per share, diluted	**0.67**	(3.91)	1.98	2.12	2.77
Cash dividends declared per common share	**0.04**	0.75	1.70	1.58	1.46

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TABLE 5: CONSOLIDATED AVERAGE BALANCE SHEETS AND ANALYSIS OF NET INTEREST INCOME (FTE)

For the years ended December 31	**2009**			2008			2007		
($ in millions)	**Average Balance**	**Revenue/ Cost**	**Average Yield/Rate**	Average Balance	Revenue/ Cost	Average Yield/Rate	Average Balance	Revenue/ Cost	Average Yield/Rate
Assets									
Interest-earning assets:									
Loans and leases *(a)*:									
Commercial loans	**$27,556**	**$1,162**	**4.22%**	$28,426	$1,520	5.35%	$22,351	$1,639	7.33%
Commercial mortgage	**12,511**	**545**	**4.35**	12,776	866	6.78	11,078	801	7.23
Commercial construction	**4,638**	**134**	**2.90**	5,846	342	5.85	5,661	421	7.44
Commercial leases	**3,543**	**150**	**4.24**	3,680	18	0.49	3,683	158	4.29
Subtotal - commercial	**48,248**	**1,991**	**4.13**	50,728	2,746	5.41	42,773	3,019	7.06
Residential mortgage	**10,886**	**602**	**5.53**	10,993	705	6.41	10,489	642	6.13
Home equity	**12,534**	**520**	**4.15**	12,269	701	5.71	11,887	897	7.54
Automobile loans	**8,807**	**556**	**6.31**	8,925	566	6.34	10,704	674	6.30
Credit card	**1,907**	**193**	**10.10**	1,708	167	9.77	1,276	133	10.39
Other consumer loans and leases	**1,009**	**86**	**8.49**	1,212	64	5.28	1,219	65	5.36
Subtotal - consumer	**35,143**	**1,957**	**5.57**	35,107	2,203	6.27	35,575	2,411	6.78
Total loans and leases	**83,391**	**3,948**	**4.73**	85,835	4,949	5.77	78,348	5,430	6.93
Securities:									
Taxable	**16,861**	**721**	**4.28**	13,082	643	4.91	11,131	566	5.08
Exempt from income taxes *(a)*	**239**	**17**	**7.19**	342	25	7.35	499	36	7.29
Other short-term investments	**1,035**	**1**	**0.14**	621	13	2.15	404	19	4.80
Total interest-earning assets	**101,526**	**4,687**	**4.62**	99,880	5,630	5.64	90,382	6,051	6.70
Cash and due from banks	**2,329**			2,490			2,275		
Other assets	**14,266**			13,411			10,613		
Allowance for loan and lease losses	**(3,265)**			(1,485)			(793)		
Total assets	**$114,856**			$114,296			$102,477		
Liabilities and Shareholders Equity									
Interest-bearing liabilities:									
Interest-bearing core deposits:									
Interest checking	**$15,070**	**$40**	**0.26%**	$14,191	$128	0.91%	$14,820	$318	2.14%
Savings	**16,875**	**127**	**0.75**	16,192	224	1.38	14,836	456	3.07
Money market	**4,320**	**26**	**0.60**	6,127	118	1.92	6,308	269	4.26
Foreign office deposits	**2,108**	**10**	**0.45**	2,153	34	1.60	1,762	73	4.15
Other time deposits	**14,103**	**470**	**3.33**	11,135	411	3.69	10,778	495	4.59
Total interest-bearing core deposits	**52,476**	**673**	**1.28**	49,798	915	1.84	48,504	1,611	3.32
Certificates - $100,000 and over	**10,367**	**280**	**2.70**	9,531	324	3.40	6,466	328	5.07
Other foreign office deposits	**157**	**-**	**0.20**	2,067	50	2.42	1,393	68	4.91
Federal funds purchased	**517**	**1**	**0.20**	2,975	70	2.34	3,646	184	5.04
Other short-term borrowings	**6,463**	**42**	**0.64**	7,785	178	2.29	3,244	140	4.32
Long-term debt	**11,035**	**318**	**2.89**	13,903	557	4.01	12,505	687	5.50
Total interest-bearing liabilities	**81,015**	**1,314**	**1.62**	86,059	2,094	2.43	75,758	3,018	3.98
Demand deposits	**16,862**			14,017			13,261		
Other liabilities	**3,926**			4,182			3,875		
Total liabilities	**101,803**			104,258			92,894		
Shareholders equity	**13,053**			10,038			9,583		
Total liabilities and shareholders equity	**$114,856**			$114,296			$102,477		
Net interest income		**$3,373**			$3,536			$3,033	
Net interest margin			**3.32%**			3.54%			3.36%
Net interest rate spread			**3.00**			3.21			2.72
Interest-bearing liabilities to interest-earning assets			**79.80**			86.16			83.82

(a) *The fully taxable-equivalent adjustments included in the above table are $19 million, $22 million and $24 million for the years ended December 31, 2009, 2008 and 2007, respectively.*

Average interest-bearing core deposits increased $2.7 billion, or five percent, compared to last year, primarily due to increased interest checking, savings other time deposits balances, partially offset by a decline in money market deposits. The cost of interest-bearing core deposits was 1.28% in 2009; a decrease of 56 bp from 1.84% in 2008. The year-over-year decrease is a result of the decrease in short-term market interest rates as the federal funds rate steadily declined over the course of 2008 and remained at a historically low rate throughout 2009.

Interest expense on wholesale funding decreased 46% compared to the prior year due to a 21% decrease in average balances and a 100 bp decrease in the average rate. In 2009, wholesale funding represented 35% of interest-bearing liabilities, down from 42% in 2008. Impacting this change was a decrease in average long-term debt of $2.9 billion, or 21%, which included a yield decrease of 112 bp compared to 2008. This was driven by a $1.0 billion FHLB advance maturing in the first quarter of 2009 and $1.2 billion in bank notes maturing in the second quarter of

2009, which were the primary factors of the reduction in interest expense on long term debt of $239 million. Further impacting the wholesale funding balance was a $3.8 billion, or a 35%, decline in average short-term borrowings, including federal funds purchased, as well as a 169 bp decline in the average rate on short term borrowings, compared to 2008, which led to reductions in interest expense of $59 million and $146 million, respectively. The decreased reliance on wholesale funding in 2009 was a result of the increase in the Bancorp s average equity position compared to 2008 due to the issuance of $1 billion of common stock in the second quarter of 2009 and from the sale of $3.4 billion of senior preferred shares and related warrants to the U.S. Treasury on December 31, 2008 under its Capital Purchase Program (CPP). For more information on the Bancorp s interest rate risk management, including estimated earnings sensitivity to changes in market interest rates, see the Market Risk Management section of Management s Discussion and Analysis.

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TABLE 6: CHANGES IN NET INTEREST INCOME (FTE) ATTRIBUTED TO VOLUME AND YIELD/RATE *(a)*

For the years ended December 31	**2009 Compared to 2008**			2008 Compared to 2007		
($ in millions)	**Volume**	**Yield/Rate**	**Total**	Volume	Yield/Rate	Total
Assets						
Increase (decrease) in interest income:						
Loans and leases:						
Commercial loans	**$(45)**	**(313)**	**(358)**	$385	(504)	(119)
Commercial mortgage	**(17)**	**(304)**	**(321)**	117	(52)	65
Commercial construction	**(60)**	**(148)**	**(208)**	13	(92)	(79)
Commercial leases	**(1)**	**133**	**132**	-	(140)	(140)
Subtotal - commercial	**(123)**	**(632)**	**(755)**	515	(788)	(273)
Residential mortgage	**(7)**	**(96)**	**(103)**	32	31	63
Home equity	**15**	**(196)**	**(181)**	28	(224)	(196)
Automobile loans	**(7)**	**(3)**	**(10)**	(113)	5	(108)
Credit card	**20**	**6**	**26**	42	(8)	34
Other consumer loans and leases	**(12)**	**34**	**22**	-	(1)	(1)
Subtotal - consumer	**9**	**(255)**	**(246)**	(11)	(197)	(208)
Total loans and leases	**(114)**	**(887)**	**(1,001)**	504	(985)	(481)
Securities:						
Taxable	**169**	**(91)**	**78**	96	(19)	77
Exempt from income taxes	**(7)**	**(1)**	**(8)**	(11)	-	(11)
Other short-term investments	**5**	**(17)**	**(12)**	8	(14)	(6)
Total interest-earning assets	**53**	**(996)**	**(943)**	597	(1,018)	(421)
Cash and due from banks						
Other assets						
Allowance for loan and lease losses						
Total change in interest income	**$53**	**(996)**	**(943)**	$597	(1,018)	(421)
Liabilities and Shareholders Equity						
Increase (decrease) in interest expense:						
Interest-bearing core deposits:						
Interest checking	**$8**	**(96)**	**(88)**	$(13)	(177)	(190)
Savings	**9**	**(106)**	**(97)**	39	(271)	(232)
Money market	**(28)**	**(64)**	**(92)**	(7)	(144)	(151)
Foreign office deposits	**(1)**	**(23)**	**(24)**	13	(52)	(39)
Other time deposits	**102**	**(43)**	**59**	16	(100)	(84)
Total interest-bearing core deposits	**90**	**(332)**	**(242)**	48	(744)	(696)
Certificates - $100,000 and over	**27**	**(71)**	**(44)**	125	(129)	(4)
Other foreign office deposits	**(25)**	**(25)**	**(50)**	26	(44)	(18)
Federal funds purchased	**(33)**	**(36)**	**(69)**	(29)	(85)	(114)
Other short-term borrowings	**(26)**	**(110)**	**(136)**	127	(89)	38
Long-term debt	**(101)**	**(138)**	**(239)**	71	(201)	(130)
Total interest-bearing liabilities	**(68)**	**(712)**	**(780)**	368	(1,292)	(924)
Demand deposits						
Other liabilities						
Total change in interest expense	**(68)**	**(712)**	**(780)**	368	(1,292)	(924)
Shareholders equity						
Total liabilities and shareholders equity						
Total change in net interest income	**$121**	**(284)**	**(163)**	$229	274	503

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

Provision for Loan and Lease Losses

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

The provision for loan and lease losses decreased to $3.5 billion in 2009 compared to $4.6 billion in 2008. The decrease in the provision expense from the prior year was due to a decline in the growth rate of commercial and consumer delinquencies and a decline in the growth of loss estimates once the loans become delinquent. As of December 31, 2009, the allowance for loan and

lease losses as a percent of loans and leases increased to 4.88% from 3.31% at December 31, 2008.

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

Noninterest Income

For the year ended December 31, 2009, noninterest income increased by $1.8 billion, or 62%, on a year-over-year basis, driven primarily by the Processing Business Sale in the second quarter of 2009 as well as strong growth in mortgage banking net revenue, partially offset by lower card and processing revenue in the second half of 2009. The components of noninterest income are shown in Table 7.

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TABLE 7: NONINTEREST INCOME

For the years ended December 31 ($ in millions)	**2009**	2008	2007	2006	2005
Service charges on deposits	**$632**	641	579	517	522
Card and processing revenue	**615**	912	826	717	622
Mortgage banking net revenue	**553**	199	133	155	174
Corporate banking revenue	**399**	444	367	318	299
Investment advisory revenue	**299**	353	382	367	358
Gain on sale of processing business	**1,758**	-	-	-	-
Other noninterest income	**479**	363	153	299	360
Securities gains (losses), net	**(10)**	(86)	21	(364)	39
Securities gains, net non-qualifying hedges on mortgage servicing rights	**57**	120	6	3	-
Total noninterest income	**$4,782**	2,946	2,467	2,012	2,374

Service charges on deposits decreased $9 million, or one percent, to $632 million in 2009 compared to 2008. This was driven by a $15 million, or four percent, decrease in consumer service charges and an increase of $6 million, or two percent, in commercial service charges compared to 2008. Commercial deposit revenue increased to $299 million reflecting an increase in customer accounts and lower market interest rates, as reduced earnings credits paid on customer balances have resulted in higher realized net service fees 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 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. Consumer deposit revenue decreased four percent, to $333 million in 2009 compared to 2008, which is attributable to lower Insufficient Funds (NSF) fees due to a change in the Bancorp s overdraft policy. Deposit generation and growth in the number of customer deposit account relationships continue to be a primary focus of the Bancorp.

Mortgage banking net revenue increased to $553 million in 2009 from $199 million in 2008. The components of mortgage banking net revenue for the years ended December 31, 2009, 2008 and 2007 are shown in Table 8.

TABLE 8: COMPONENTS OF MORTGAGE BANKING NET REVENUE

For the years ended December 31

($ in millions)	**2009**	2008	2007
Origination fees and gains on loan sales	**$485**	260	79
Servicing revenue:			
Servicing fees	**197**	164	145
Servicing rights amortization	**(146)**	(107)	(92)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**17**	(118)	1
Net servicing revenue (expense)	**68**	(61)	54
Mortgage banking net revenue	**$553**	199	133

Mortgage banking net revenue increased by $354 million compared to 2008 due to strong growth in originations and higher margins on sold loans. Mortgage originations increased to $21.7 billion, up 89% from $11.5 billion in 2008 due to lower interest rates and government incentive programs, which have been designed to provide significant tax and other incentives to home buyers. Originations in 2009 resulted in gains on mortgage loan sales activity of $485 million compared to $260 million in 2008. It remains the intent of the Bancorp to sell a majority of the mortgage loans it originates.

Mortgage net servicing revenue increased $129 million compared to 2008. 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. As discussed in more detail below, the increase in net servicing revenue was primarily due to a net gain of $17 million on the net valuation adjustments on mortgage servicing rights (MSRs) and MSR derivatives, compared to a net loss of $118 million in the prior year. The Bancorp s total residential mortgage loans serviced at December 31, 2009 and 2008 was $58.5 billion and $50.7 billion, respectively, with $48.6 billion and $40.4 billion, respectively, of residential mortgage loans serviced for others.

Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing rates. Temporary impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. Further information on the valuation of mortgage servicing rights and free-standing derivatives used to hedge the MSR portfolio can be found in Note 11 of the Notes to Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in impairment on the MSR portfolio. The Bancorp recognized a gain from MSR derivatives of $41 million, offset by a temporary impairment of $24 million, resulting in a net gain of $17 million for the year ended December 31, 2009 related to changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio. For the year ended December 31, 2008, the Bancorp recognized a gain from MSR derivatives of $89 million, offset by a temporary impairment of $207 million, resulting in a net loss of $118 million. In addition to the derivative positions used to economically hedge the MSR portfolio, the Bancorp acquires various securities as a component of its non-qualifying hedging strategy. A gain on non-qualifying hedges on mortgage servicing rights of $57 million and $120 million in 2009 and 2008, respectively, was included in noninterest income within the Consolidated Statements of Income, but is shown separate from mortgage banking net revenue.

Corporate banking revenue decreased $45 million, or 10%, in 2009, largely due to a lower volume of interest rate derivative sales and foreign exchange revenue, partially offset by growth in institutional sales and business lending fees. Foreign exchange derivative income of $76 million decreased $30 million compared to 2008 and income on interest rate derivatives was down $29 million to $21 million in 2009, both of which were driven by volume declines. Fees associated with business lending grew 22% to $103 million, compared to 2008. The Bancorp is committed to providing a comprehensive range of financial services to large and middle-market businesses.

Investment advisory revenue decreased $54 million, or 15%, from 2008 as the Bancorp experienced broad-based declines in all categories within investment advisory revenue. Brokerage fee income, which includes Fifth Third Securities income, decreased 18%, or $18 million, in 2009 as investors continued to migrate balances from stock and bond funds to money market funds resulting in reduced commission-based transactions. Mutual fund revenue decreased 28%, to $38 million, in 2009 reflecting lower

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valuations on assets under management and a continued shift to money market funds and lower fee products. As of December 31, 2009, the Bancorp had approximately $187 billion in assets under care and managed $25 billion in assets for individuals, corporations and not-for-profit organizations.

On June 30, 2009, the Bancorp completed the sale of a majority interest in its merchant acquiring and financial institutions processing businesses. The Processing Business Sale generated a pre-tax gain of $1.8 billion ($1.1 billion after-tax). As part of the transaction, the Bancorp retained certain debit and credit card interchange revenue and sold the financial institutions and merchant processing portions of the business, which historically comprised approximately 70% of total card and processing revenue. As a result of the sale, card and processing revenue decreased $297 million, or 33%, in 2009 compared to 2008. Card issuer interchange increased 6%, to $262 million, compared to 2008 due to strong growth in debit card transaction volumes, partially offset by lower credit card usage. Merchant processing and financial institutions revenue was $174 million and $179 million, respectively, in 2009, which represents activity prior to the Processing Business Sale.

Other noninterest income increased $116 million in 2009 compared to 2008. The components of other noninterest income are shown in Table 9. The increase was primarily due to net gains from the sale of loans of $38 million in 2009, net of charges of $54 million on certain held-for-sale commercial loans, compared to losses of $11 million on loan sales in 2008, and lower losses on bank owned life insurance. During 2009, the Bancorp recognized $53 million in charges to record a reserve in connection with the intent to surrender one of the Bancorp s BOLI policies as well as losses related to market value declines, compared to charges of $215 million to lower the cash surrender value of one of the policies for the year ended December 31, 2008. Additionally, the year ended December 31, 2009 benefited from a $244 million gain relating to the sale of the Bancorp s Visa, Inc. Class B shares, $76 million in revenue related to the Transition Service Agreement (TSA) entered into as part of the Processing Business Sale, and $18 million in mark-to-market adjustments on warrants and put options related to the Processing Business Sale. The year ended December 31, 2008 was impacted by a $273 million gain from the redemption of a portion of the Bancorp s ownership interest in Visa, Inc. and a $76 million gain related to the satisfactory resolution of litigation associated with a prior acquisition.

Net securities losses totaled $10 million in 2009 compared to $86 million of net securities losses during 2008. The net securities losses in 2008 include OTTI charges of $38 million and $29 million relating to FHLMC and FNMA preferred stock, respectively, along with OTTI charges of $37 million related to certain bank trust preferred securities.

Noninterest Expense

Total noninterest expense decreased $738 million, or 16%, in 2009 compared to 2008. The components of noninterest expense are shown in Table 10. Noninterest expense in 2009 included a $73 million reduction in the Visa litigation reserve as well as a $55 million FDIC special assessment charge. Noninterest expense in

TABLE 9: COMPONENTS OF OTHER NONINTEREST INCOME

For the years ended December 31

($ in millions)	**2009**	2008	2007
Operating lease income	**$59**	47	32
Cardholder fees	**48**	58	56
Insurance income	**47**	36	32
Consumer loan and lease fees	**43**	51	46
Gain (loss) on loan sales	**38**	(11)	25
Banking center income	**22**	31	29
Gain on sale/redemption of Visa, Inc. ownership interests	**244**	273	-
Loss on sale of other real estate owned	**(70)**	(60)	(14)
Bank owned life insurance loss	**(2)**	(156)	(106)
Litigation settlement	**-**	76	-
Other	**50**	18	53

Total other noninterest income	**$479**	363	153

2008 included a $965 million charge to record goodwill impairment, $99 million in net reductions to noninterest expense to reflect the recognition of the Bancorp s proportional share of the Visa escrow account, $36 million in legal expenses related to litigation associated with a prior acquisition and $20 million in acquisition-related expenses. Excluding these items, noninterest expense increased $202 million, or six percent, due to increased loan related expenses from higher mortgage origination volumes and expenses incurred from the management of problem assets and higher FDIC insurance costs from an increase in assessment rates during 2009, partially offset by lower card and processing expense due to the Processing Business Sale on June 30, 2009.

Total personnel costs (salaries, wages and incentives plus employee benefits) increased $35 million, or two percent in 2009 compared to 2008 due primarily to increased insurance costs, retirement plan contributions and deferred compensation expenses. As of December 31, 2009, the Bancorp employed 21,901 employees, of which 6,772 were officers and 2,370 were part-time employees. Full-time equivalent employees totaled 20,998 as of December 31, 2009 compared to 21,476 as of December 31, 2008.

Card and processing expense, which includes third-party processing expenses, card management fees and other bankcard processing, decreased $81 million, or 29%, in 2009 compared to 2008 due primarily to the Processing Business Sale in the second quarter of 2009. As part of the sale, the Bancorp entered into a transition service agreement (TSA) that resulted in the Bancorp incurring approximately $76 million in operating expenses that were offset with revenue from the TSA that was recorded in other noninterest income.

Total other noninterest expense increased $282 million, or 26%, in 2009 compared to 2008. The components of other noninterest expense are shown in Table 11. Loan and lease expense was higher compared to 2008 as a result of increased closing expenses resulting from growth in residential mortgage loan originations and higher expenses incurred in the management of problem assets. FDIC insurance and other taxes were higher due to a special assessment of $55 million in 2009 as well as increased assessment rates. These were partially offset by lower professional service fees and marketing expenses. The provision

TABLE 10: NONINTEREST EXPENSE

For the years ended December 31 ($ in millions)	**2009**	2008	2007	2006	2005
Salaries, wages and incentives	**$1,339**	1,337	1,239	1,174	1,133
Employee benefits	**311**	278	278	292	283
Net occupancy expense	**308**	300	269	245	221
Card and processing expense	**193**	274	244	184	145
Technology and communications	**181**	191	169	141	142
Equipment expense	**123**	130	123	116	105
Goodwill impairment	**-**	965	-	-	-
Other noninterest expense	**1,371**	1,089	989	763	772
Total noninterest expense	**$3,826**	4,564	3,311	2,915	2,801
Efficiency ratio	**46.9%**	70.4	60.2	59.4	52.1

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for unfunded commitments was consistent with 2008 as estimates of inherent losses resulting from deterioration in the credit quality of the underlying borrowers remained high.

The Bancorp incurred $269 million of FDIC insurance and other taxes in 2009 compared to $73 million in 2008 as the result of an increase in deposit insurance and for participation in the TLGP. In December 2008, the FDIC implemented an interim rule under the FDIC restoration plan which increased the deposit insurance assessment rates 7 bp from the 2008 level for all banks for the first quarter of 2009. In February 2009, the FDIC adopted the final rule for the FDIC restoration plan that, effective April 1, 2009, made the assessment rates more risk sensitive and widened the range (7.0-77.5 bp) the FDIC may charge banks. Additionally, the FDIC imposed a special assessment, effective June 30, 2009, on each insured depository institution calculated as 5 bp of total assets less Tier 1 capital. As a result, the Bancorp recognized a $55 million special assessment charge in the second quarter of 2009.

The Bancorp participates in the FDIC s TLGP which temporarily guarantees qualifying senior debt of participating FDIC-insured institutions and certain holding companies, as well as deposits in qualifying noninterest-bearing deposit transaction accounts. The Bancorp did not have qualifying senior debt insured under the TLGP in 2009, but did have qualifying deposit accounts.

The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 46.9% and 70.4% for 2009 and 2008, respectively. Excluding the goodwill impairment charge of $965 million in 2008, the efficiency ratio was 55.5% (comparison being provided to supplement an understanding of fundamental trends). The Bancorp continues to focus on efficiency initiatives, as part of its core emphasis on operating leverage and on expense control.

Applicable Income Taxes

The Bancorp s income (loss) before income taxes, applicable income tax expense (benefit) and effective tax rate for each of the periods indicated are shown in Table 12. Applicable income tax expense for all periods includes the benefit from tax-exempt

TABLE 11: COMPONENTS OF OTHER NONINTEREST EXPENSE

For the years ended December 31

($ in millions)	**2009**	2008	2007
FDIC insurance and other taxes	**$269**	73	31
Loan and lease	**234**	188	119
Provision for unfunded commitments and letters of credit	**99**	98	16
Affordable housing investments impairment	**83**	67	57
Marketing	**79**	102	84
Professional services fees	**63**	102	54
Intangible asset amortization	**57**	56	42
Postal and courier	**53**	54	52
Insurance expense	**50**	30	17
Travel	**41**	54	54
Operating lease	**39**	32	22
Recruitment and education	**30**	33	41
Supplies	**25**	31	31
Other real estate owned expense	**24**	11	6
Data processing	**21**	14	14
Visa litigation reserve	**(73)**	(99)	172
Other	**277**	243	177
Total other noninterest expense	**$1,371**	1,089	989

income, tax-advantaged investments and general business tax credits, partially offset by the effect of nondeductible expenses. The effective tax rate for the tax year ended December 31, 2009 was primarily impacted by $112 million in tax credits, a $106 million tax benefit related to the decision to surrender one of the Bancorp s BOLI policies and the determination that losses on the policy recorded in prior periods are now tax deductible, and a $55 million reduction in income tax expense related to the Bancorp s leveraged lease litigation settlement with the IRS. The effective tax rate for the year ended December 31, 2008 was primarily impacted by the pre-tax loss for the year partially offset by tax expense of approximately $140 million required for interest related to the tax treatment of certain of the Bancorp s leveraged leases for previous years and the nondeductible portion of the goodwill impairment charge. Additionally, see Note 20 of the Notes to Consolidated Financial Statements for

further information on income taxes.

TABLE 12: APPLICABLE INCOME TAXES

For the years ended December 31 ($ in millions)	**2009**	2008	2007	2006	2005
Income (loss) before income taxes and cumulative effect	**$767**	(2,664)	1,537	1,627	2,208
Applicable income tax expense (benefit)	**30**	(551)	461	443	659
Effective tax rate	**3.9%**	(20.7)	30.0	27.2	29.9

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