FIFTH THIRD BANCORP
Form 10-Q
August 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2008

Commission File Number 001-33653

(Exact name of Registrant as specified in its charter)

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

Fifth Third Center

Cincinnati, Ohio 45263

(Address of principal executive offices)

Registrant s telephone number, including area code: (513) 534-5300

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

There were 577,529,636 shares of the Registrant s Common Stock, without par value, outstanding as of June 30, 2008.

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This report may contain forward-looking statements about Fifth Third Bancorp and/or the company as combined acquired entities within the meaning of Sections 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder, that involve inherent risks and uncertainties. This report may contain certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Fifth Third Bancorp and/or the combined company including statements preceded by, followed by or that include the words or phrases such as believes, expects, anticipates, plans, trend, objective, continue, remain or similar expressions or future or conditional verbs such as should, could, might, can, may or similar expressions. There are a number of important factors that could cause future results to differ mater from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) general economic conditions and weakening in the economy, specifically the real estate market, either national or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, are less favorable than expected; (2) deteriorating credit quality; (3) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (4) changes in the interest rate environment reduce interest margins; (5) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (6) Fifth Third s ability to maintain required capital levels and adequate sources of funding and liquidity; (7) changes and trends in capital markets; (8) competitive pressures among depository institutions increase significantly; (9) effects of critical accounting policies and judgments; (10) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; (11) 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; (12) ability to maintain favorable ratings from rating agencies; (13) fluctuation of Fifth Third s stock price; (14) ability to attract and retain key personnel; (15) ability to receive dividends from its subsidiaries; (16) potentially dilutive effect of future acquisitions on current shareholders ownership of Fifth Third; (17) effects of accounting or financial results of one or more acquired entities; (18) difficulties in combining the operations of acquired entities; (19) inability to generate the gains on sale and related increase in shareholders equity that it anticipates from the sale of certain non-core businesses, (20) loss of income from the sale of certain non-core businesses could have an adverse effect on Fifth Third s earnings and future growth (21) ability to secure confidential information through the use of computer systems and telecommunications networks; and (22) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is available in the Bancorp s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the United States Securities and Exchange Commission (SEC). Copies of this filing are available at no cost on the SEC s Web site at www.sec.gov or on Fifth Third s web site at www.53.com. Fifth Third undertakes no obligation to release revisions to these forward-looking statements or reflect events or circumstances after the date of this report.

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

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

TABLE 1: Selected Financial Data

($ in millions, except per share data)	For the three months ended June 30, 2008	2007	Percent Change	For the six months ended June 30, 2008	2007	Percent Change
Income Statement Data						
Net interest income *(a)*	**$ 744**	745		**$ 1,570**	1,487	6
Noninterest income	**722**	669	8	**1,587**	1,277	24
Total revenue *(a)*	**1,466**	1,414	4	**3,157**	2,764	14
Provision for loan and lease losses	**719**	121	492	**1,263**	205	515
Noninterest expense	**858**	765	12	**1,576**	1,517	4
Net income (loss)	**(202)**	376	NM	**84**	735	(89)
Common Share Data						
Earnings (loss) per share, basic	**$ (.37)**	.69	NM	**$ .16**	1.35	(88)
Earnings (loss) per share, diluted	**(.37)**	.69	NM	**.16**	1.34	(88)
Cash dividends per common share	**.15**	.42	(64)	**.59**	.84	(30)
Book value per share	**16.75**	17.14	(2)			
Dividend payout ratio	**NM**	59.7	NM	**380.0%**	62.0	513
Financial Ratios						
Return on average assets	**(.73)%**	1.49	NM	**.15%**	1.48	(90)
Return on average equity	**(8.4)**	15.7	NM	**1.8**	15.1	(88)
Average equity as a percent of average assets	**8.59**	9.53	(10)	**8.51**	9.78	(13)
Tangible equity	**6.37**	7.18	(11)			
Tangible common equity	**5.40**	7.17	(25)			
Net interest margin *(a)*	**3.04**	3.37	(10)	**3.22**	3.40	(5)
Efficiency *(a)*	**58.6**	54.1	8	**49.9**	54.9	(9)
Credit Quality						
Net losses charged off	**$ 344**	102	237	**$ 620**	173	258
Net losses charged off as a percent of average loans and leases	**1.66%**	.55	202	**1.52%**	.47	223
Allowance for loan and lease losses as a percent of loans and leases	**1.85**	1.06	75			
Allowance for credit losses as a percent of loans and leases *(b)*	**1.98**	1.16	71			
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned	**2.56**	.70	266			
Average Balances						
Loans and leases, including held for sale	**$ 85,212**	77,048	11	**$ 85,062**	76,457	11
Total securities and other short-term investments	**13,363**	11,741	14	**12,980**	11,726	11
Total assets	**112,098**	100,767	11	**111,694**	99,984	12
Transaction deposits *(c)*	**53,763**	50,932	6	**53,610**	50,520	6
Core deposits *(d)*	**63,280**	61,712	3	**63,811**	61,428	4
Wholesale funding *(e)*	**35,160**	25,393	38	**34,189**	24,796	38
Shareholders equity	**9,629**	9,599		**9,504**	9,783	(3)
Regulatory Capital Ratios						
Tier I capital	**8.51%**	8.13	5			
Total risk-based capital	**12.15**	10.54	15			
Tier I leverage	**9.08**	8.76	4			

(a) *Amounts presented on a fully taxable equivalent basis. The taxable equivalent adjustments for the three months ended June 30, 2008 and 2007 are $6 million and for the six months ended June 30, 2008 and 2007 are $11 million and $12 million, respectively.*

(b) *The allowance for credit losses is the sum of the allowance for loan and lease losses and the reserve for unfunded commitments.*
(c) *Includes demand, interest checking, savings, money market and foreign office deposits.*
(d) *Includes transaction deposits plus other time deposits.*
(e) *Includes certificates $100,000 and over, other foreign office deposits, federal funds purchased, short-term borrowings and long-term debt.*
NM *Not meaningful*

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

OVERVIEW

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

The Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At June 30, 2008, the Bancorp had $115.0 billion in assets, operated 18 affiliates with 1,308 full-service Banking Centers including 97 Bank Mart® locations open seven days a week inside select grocery stores and 2,329 Jeanie® ATMs in the Midwestern and Southeastern regions of the United States. The Bancorp reports on five business segments: Commercial Banking, Branch Banking, Consumer Lending, Fifth Third Processing Solutions (FTPS) and Investment Advisors.

The Bancorp believes that banking is first and foremost a relationship business where the strength of the competition and challenges for growth can vary in every market. Its affiliate operating model provides a competitive advantage by keeping the decisions close to the customer and by emphasizing individual relationships. Through its affiliate operating model, individual managers from the banking center to the executive level are given the opportunity to tailor financial solutions for their customers.

The Bancorp s revenues are fairly evenly dependent on net interest income and noninterest income. For the three months ended June 30, 2008, net interest income, on a fully taxable equivalent (FTE) basis, and noninterest income provided 51% and 49% of total revenue, respectively. Therefore, changes in interest rates, credit quality, economic trends and the capital markets are primary factors that drive the performance of the Bancorp. As discussed later in the Risk Management section, risk identification, measurement, monitoring, control and reporting are important to the management of risk and to the financial performance and capital strength of the Bancorp.

Net interest income is the difference between interest income earned on assets such as loans, leases and securities, and interest expense incurred on liabilities such as deposits, short-term borrowings and long-term debt. Net interest income is affected by the general level of interest rates, the relative level of short-term and long-term interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Generally, the rates of interest the Bancorp earns on its assets and pays on its liabilities are established for a period of time. The change in market interest rates over time exposes the Bancorp to interest rate risk through potential adverse changes to net interest income and financial position. The Bancorp manages this risk by continually analyzing and adjusting the composition of its assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to changes in market interest rates. Additionally, in the ordinary course of business, the Bancorp enters into certain derivative transactions as part of its overall strategy to manage its interest rate and prepayment risks. The Bancorp is also exposed to the risk of losses on its loan and lease portfolio as a result of changing expected cash flows caused by loan defaults and inadequate collateral due to a weakening economy within the Bancorp s footprint.

Net interest income, net interest margin, net interest rate spread and the efficiency ratio are presented in Management s Discussion and Analysis of Financial Condition and Results of Operations on an FTE basis. The FTE basis adjusts for the tax-favored status of income from certain loans and securities held by the Bancorp that are not taxable for federal income tax purposes. The Bancorp believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

Noninterest income is derived primarily from electronic funds transfer (EFT) and merchant transaction processing fees, card interchange, fiduciary and investment management fees, corporate banking revenue, service charges on deposits and mortgage banking revenue. Noninterest expense is primarily driven by personnel costs and occupancy expenses, in addition to expenses incurred in the processing of credit and debit card transactions for its customers and merchant and financial institution clients.

On May 2, 2008, the Bancorp completed its acquisition of nine branches located in Atlanta from First Horizon National Corporation (First Horizon). On June 6, 2008, the Bancorp completed its acquisition of First Charter Corporation (First Charter), a regional financial services company with assets of $4.8 billion and that operates 57 branches in North Carolina and 2 in suburban Atlanta, paying $31.00 per First Charter share, or approximately $1.1 billion.

Earnings Summary

The Bancorp s net loss was $202 million in the second quarter of 2008, compared to net income of $376 million for the same period last year. Second quarter 2008 results reflected the $229 million after-tax impact of charges relating to leveraged leases, which consisted of approximately $130 million pre-tax, reflected as a reduction in interest income, and an increase of approximately $140 million in tax expense required for interest. The leveraged lease charges were deemed necessary due to recent court decisions related to leveraged leases and uncertainty regarding the outcome of outstanding litigation involving certain of the Bancorp s leveraged leases. Current quarter results also reflect an increase in the provision for loan and lease losses due to the continuing deterioration in credit quality and collateral values within the Bancorp s footprint, particularly in Michigan and Florida.

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

Net interest income (FTE) was flat compared to the same period last year, at $744 million versus $745 million. Net interest margin was 3.04% in the second quarter of 2008, a decrease of 33 basis points (bp) from the second quarter of 2007. Net interest income was impacted by the previously mentioned $130 million charge related to certain leveraged lease transactions, which corresponded to a 53 bp impact on net interest margin. Additionally, net interest income for the current quarter benefited from $31 million in accretion due to fair value purchase accounting adjustments related to the First Charter acquisition, which corresponded to a 13 bp impact on net interest margin. Net interest margin was also impacted by lower funding costs and an 11% increase in average loans and leases.

Noninterest income increased eight percent, from $669 million to $722 million, over the same quarter last year. The increase from a year ago was due to double-digit growth in electronic payment processing revenue, deposit service charges, corporate banking revenue and mortgage banking revenue. Electronic payment processing revenue increased due to growth in each of its product lines: merchant, financial institutions and card issuer interchange. The increase in deposit service charges can be attributed to a decrease in earnings credits on commercial deposits and an increase in deposit fees from higher customer activity for consumer deposits. Growth in corporate banking revenue was broad-based in comparison to the prior year quarter. Mortgage banking revenue increased compared to the prior year quarter due to growth in originations, higher sale margins and the impact of the adoption of Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 (SFAS No. 159) on residential mortgage loans held for sale.

Noninterest expense increased 12% compared to the second quarter of 2007. Noninterest expense in the second quarter of 2008 included acquisition-related expenses totaling $13 million resulting from the First Charter acquisition and First Horizon branch acquisition during the quarter. The increase in noninterest expense can also be attributed to approximately $17 million in mortgage origination costs related to the adoption of SFAS No. 159 that were historically recorded in mortgage banking net revenue. Noninterest expense also grew due to increases in volume-related processing expense, incentive compensation, branch expansion related expenses as well as investments in technology.

The Bancorp maintains a conservative approach to both lending and investing activities as it does not originate subprime loans, nor does it hold asset-backed securities backed by subprime loans in its securities portfolio. However, the Bancorp has exposure to the housing markets, which continued to weaken considerably during the second quarter of 2008, particularly in the upper Midwest and Florida. Consequently, the provision for loan and lease losses increased to $719 million for the three months ended June 30, 2008 compared to $121 million during the second quarter of 2007. In addition, net charge-offs as a percent of average loans and leases were 1.66% in the second quarter of 2008 compared to .55% in the second quarter of 2007. At June 30, 2008, nonperforming assets as a percent of loans, leases and other assets, including other real estate owned increased to 2.56% from .70% at June 30, 2007. Refer to the Credit Risk Management section in Management s Discussion and Analysis for more information on credit quality.

The Bancorp s capital ratios exceed the well-capitalized guidelines as defined by the Board of Governors of the Federal Reserve System (FRB). As of June 30, 2008, the Tier I capital ratio was 8.51%, the Tier I leverage ratio was 9.08% and the total risk-based capital ratio was 12.15%. These capital ratios were strengthened in the second quarter of 2008 as a result of the Bancorp s issuance of capital totaling approximately $1.1 billion in the form of convertible preferred stock. The Bancorp had senior debt ratings of Aa3 from Moody s, A+ from Standard & Poor s, A+ from Fitch Ratings and AAL from DBRS Ltd. at June 30, 2008, which indicate the Bancorp s strong capacity to meet financial commitments. The well-capitalized capital ratios along with strong credit ratings provide the Bancorp with access to the capital markets.

The Bancorp continues to invest in the geographic areas that offer the best growth prospects through acquisitions and de novo expansion, while at the same time meeting the banking needs of our existing communities through a well-distributed banking center network. During the second quarter of 2008, the Bancorp opened 76 additional banking centers including banking centers from acquisitions. New banking centers in the remainder of 2008 will mostly be in high growth markets such as Florida, Chicago, Tennessee, Georgia and North Carolina.

RECENT ACCOUNTING STANDARDS

Note 2 of the Notes to Condensed Consolidated Financial Statements provides a discussion of the significant new accounting standards adopted by the Bancorp during 2008 and 2007 and the expected impact of significant accounting standards issued but not yet required to be adopted.

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

CRITICAL ACCOUNTING POLICIES

The Bancorp s Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. Certain accounting polices require management to exercise judgment in determining methodologies, economic assumptions and estimates that may materially affect the value of the Bancorp s assets or liabilities and results of operations and cash flows. The Bancorp has five critical accounting policies, which include the accounting for allowance for loan and lease losses, reserve for unfunded commitments, income taxes, valuation of servicing rights and fair value measurements.

Allowance for Loan and Lease Losses

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

Larger commercial loans that exhibit probable or observed credit weakness are subject to individual review. When individual loans are impaired, allowances are allocated based on management s estimate of the borrower s ability to repay the loan given the availability of collateral and other sources of cash flow, as well as an evaluation of legal options available to the Bancorp. The review of individual loans includes those loans that are impaired as provided in SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Any allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or the fair value of the underlying collateral. The Bancorp evaluates the collectibility of both principal and interest when assessing the need for a loss accrual. Historical loss rates are applied to commercial loans which are not impaired and thus not subject to specific allowance allocations. The loss rates are derived from a migration analysis, which tracks the historical net charge-off experience sustained on loans according to their internal risk grade. The risk grading system currently utilized for allowance analysis purposes encompasses ten categories.

Homogenous loans and leases, such as consumer installment and residential mortgage, are not individually risk graded. Rather, standard credit scoring systems and delinquency monitoring are used to assess credit risks. Allowances are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history by loan category. Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management s judgment, are necessary to reflect losses inherent in the portfolio. Factors that management considers in the analysis include the effects of the national and local economies; trends in the nature and volume of delinquencies, charge-offs and nonaccrual loans; changes in mix; credit score migration comparisons; asset quality trends; risk management and loan administration; changes in the internal lending policies and credit standards; collection practices; and examination results from bank regulatory agencies and the Bancorp s internal credit examiners.

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

Loans acquired by the Bancorp through a purchase business combination are evaluated for credit impairment at acquisition. Reductions to the carrying value of the acquired loans as a result of credit impairment are recorded as an adjustment to goodwill. The Bancorp does not carry over the acquired company s allowance for loan and lease losses, nor does the Bancorp add to its existing allowance for the acquired loans as part of purchase accounting.

The Bancorp s determination of the allowance for commercial loans is sensitive to the risk grade it assigns to these loans. In the event that 10% of commercial loans in each risk category would experience a downgrade of one risk category, the allowance for commercial loans would increase by approximately $108 million at June 30, 2008. The Bancorp s determination of the allowance for residential and retail loans is sensitive to changes in estimated loss rates. In the event that estimated loss rates would increase by 10%, the allowance for residential and consumer loans would increase by approximately $61 million at June 30, 2008. As several quantitative and qualitative factors are considered in determining the allowance for loan and lease losses, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the allowance for loan and lease losses. They are intended to provide insights into the impact of adverse changes in risk grades and estimated loss rates and do not imply any expectation of future deterioration in the risk ratings or loss rates. Given current processes employed by the Bancorp, management believes the risk grades and estimated loss rates currently assigned are appropriate.

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

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

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

Reserve for Unfunded Commitments

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

Income Taxes

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

Deferred income tax assets and liabilities are determined using the balance sheet method. 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. Deferred taxes are reported in accrued taxes, interest and expenses in the Condensed Consolidated Balance Sheets.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Condensed Consolidated Balance Sheets. The Bancorp evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period s income tax expense and can be significant to the operating results of the Bancorp. As described in greater detail in Note 9 of the Notes to Condensed Consolidated Financial Statements, the Internal Revenue Service (IRS) is currently challenging the Bancorp s tax treatment of certain leasing transactions. For additional information on income taxes, see Note 11 of the Notes to Condensed Consolidated Financial Statements.

Valuation of Servicing Rights

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

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

The change in the fair value of mortgage servicing rights (MSRs) at June 30, 2008 due to immediate 10% and 20% adverse changes in the current prepayment assumption would be approximately $30 million and $57 million, respectively, and due to immediate 10% and 20% favorable changes in the current prepayment assumption would be approximately $33 million and $68 million, respectively.

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

The change in the fair value of the MSR portfolio at June 30, 2008 due to immediate 10% and 20% adverse changes in the discount rate assumption would be approximately $27 million and $52 million, respectively, and due to immediate 10% and 20% favorable changes in the discount rate assumption would be approximately $29 million and $61 million, respectively. The sensitivity analysis related to other consumer and commercial servicing rights is not material to the Bancorp s Condensed Consolidated Financial Statements. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% and 20% variation in assumptions typically cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of variation in a particular assumption on the fair value of the interests that continue to be held by the transferor is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the effect of the Bancorp s non-qualifying hedging strategy, which is maintained to lessen the impact of changes in value of the MSR portfolio, is excluded from the above analysis.

Fair Value Measurements

Effective January 1, 2008, the Bancorp adopted SFAS No. 157, Fair Value Measurements , which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 addresses the valuation techniques used to measure fair value. These valuation techniques include the market approach, income approach and cost approach. The market approach uses prices or relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach involves converting future amounts to a single present amount. The measurement is valued based on current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of the asset.

SFAS No. 157 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument s fair value measurement. The three levels within the fair value hierarchy are described as follows:

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

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

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

The Bancorp measures financial assets and liabilities at fair value in accordance with SFAS No. 157. These measurements involve various valuation techniques and models, which involve inputs that are observable, when available, and include the following significant financial instruments: available-for-sale securities, residential mortgage loans held for sale and certain derivatives. The following is a summary of valuation techniques utilized by the Bancorp for its significant financial assets and liabilities.

Available-for-sale securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and classified within Level 2 of the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. A significant portion of the Bancorp s available-for-sale securities are agency mortgage-backed securities that are fair valued using a market approach and the Bancorp has determined them to be Level 2 in the fair value hierarchy.

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

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. Residential mortgage loans held for sale are fair valued using a market approach and the Bancorp has determined them to be Level 2 in the fair value hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange. Derivative positions that are valued utilizing models that use as their basis readily observable market parameters are classified within Level 2 of the valuation hierarchy. Derivatives that are valued based upon models with significant unobservable market parameters are classified within Level 3 of the valuation hierarchy. A majority of the derivatives are fair valued using an income approach and the Bancorp has determined them to be Level 2 in the fair value hierarchy.

Other significant areas include purchase price allocations and the analysis of potential impairment of goodwill. No material changes have been made during the three and six months ended June 30, 2008 to the valuation techniques or models described previously.

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

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

STATEMENTS OF INCOME ANALYSIS

Net Interest Income

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

Net interest income (FTE) was $744 million for the second quarter of 2008, compared to the $745 million earned in the second quarter of 2007 and decreased $82 million from the first quarter of 2008. Net interest income was affected by the recalculation of cash flows on certain leveraged leases that reduced interest income on commercial leases by approximately $130 million. In addition, amortization and accretion of premiums and discounts on acquired loans increased interest income by $35 million compared to an increase of $5 million in the first quarter of 2008 and a decrease of $1 million for the second quarter of 2007. Exclusive of the items above, net interest income increased $93 million compared to the second quarter of 2007 and $18 million compared to the first quarter of 2008. The increase from the second quarter of 2007 resulted from an 11% increase in average loan and lease balances combined with a 42 bp increase in net interest spread. The sequential increase in net interest income was related to a 12 bp increase in net interest rate spread primarily caused by increased credit spreads on loans and leases that allowed interest-bearing liabilities to reprice further than interest-bearing assets during the declining rate environment.

Net interest margin decreased to 3.04% in the second quarter of 2008, compared to 3.41% in the first quarter of 2008 and 3.37% in the second quarter of 2007, and was affected by the recalculation of cash flows on certain leveraged leases, a 53 bp decrease, and amortization and accretion of premiums and discounts on acquired loans, a 13 bp increase. On a year-over-year basis, the decrease in the Bancorp s net free funding position was more than offset by a 42 bp increase in net interest rate spread. Sequentially, a full quarter effect of the decreases in funding rates during the first quarter of 2008 offset the increased reliance on wholesale funding.

Total average interest-earning assets increased modestly on a sequential basis and 11% from the second quarter of 2007. On a year-over-year basis, average total commercial loans increased 21% and the investment portfolio increased 14% while consumer loans modestly declined. The increase in total commercial loans was concentrated in commercial and industrial loans, which increased 32%, primarily due to strong loan production and the origination for portfolio of investment grade loans that historically were sold to the Bancorp s commercial paper conduit. Sequential increases in commercial and industrial loans were offset by decreases in automobile loans as a result of $2.7 billion of securitizations during the first quarter of 2008.

The growth in average loans and leases since the second quarter of 2007 outpaced core deposit growth by $6.6 billion. In the second quarter of 2008, wholesale funding represented 42% of interest-bearing liabilities, up from 34% in the second quarter of 2007. The increase in wholesale funding as a percentage of interest-bearing liabilities was the result of the issuance of $2.2 billion of trust preferred securities during 2007, $750 million of senior notes in April 2008 and $400 million of trust preferred securities in May 2008, partially offset by the repurchase of $690 million of mandatorily redeemable securities, which occurred in the fourth quarter of 2007.

Interest income (FTE) from loans and leases decreased $293 million, or 22%, compared to the second quarter of 2007 and decreased $241 million, or 19%, compared to the first quarter of 2008. The decrease sequentially and year-over-year is affected by the recalculation of leveraged lease cash flows that reduced interest income from loans and leases by approximately $130 million. Other factors reducing interest income from loans and leases include the repricing of loans in a declining rate environment, partially offset by the increase in average loan and lease balances. At the end of the second quarter of 2008, the Bancorp s prime rate was 5.00% compared to 8.25% during the second quarter of 2007.

Interest income (FTE) from investment securities and short-term investments increased seven percent compared to the second quarter of 2007 and was flat compared to the first quarter of 2008. The increase from the second quarter of 2007 was the result of a 14%, or $1.6 billion, increase in the average investment portfolio offset by a decrease in the weighted-average yield of 28 bp.

Core deposits increased $1.6 billion, or three percent, compared to the second quarter of last year and decreased $1.1 billion, or two percent, compared to the sequential quarter. The cost of interest-bearing core deposits was 1.60% in the second quarter of 2008, which was a decrease of 182 bp from 3.42% in the second quarter of 2007 and 79 bp from 2.39% in the first quarter of 2008. The decrease in the cost of interest-bearing core deposits is a result of declining market rates.

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

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

For the three months ended	June 30, 2008			June 30, 2007			Attribution of Change in Net Interest Income *(a)*		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets									
Interest-earning assets:									
Loans and leases *(b)*:									
Commercial loans	**$ 28,557**	**$ 357**	**5.04%**	$ 21,587	$ 401	7.45%	$ 108	$ (152)	$ (44)
Commercial mortgage	**12,590**	**186**	**5.93**	11,030	201	7.30	26	(41)	(15)
Commercial construction	**5,700**	**77**	**5.44**	5,595	107	7.69	2	(32)	(30)
Commercial leases	**3,747**	**(91)**	**(9.77)**	3,678	40	4.32	1	(132)	(131)
Subtotal commercial	**50,594**	**529**	**4.21**	41,890	749	7.17	137	(357)	(220)
Residential mortgage loans	**11,244**	**171**	**6.10**	10,201	156	6.12	16	(1)	15
Home equity	**12,012**	**168**	**5.61**	11,886	227	7.66	2	(61)	(59)
Automobile loans	**8,439**	**131**	**6.23**	10,552	164	6.25	(33)		(33)
Credit card	**1,703**	**39**	**9.28**	1,248	33	10.62	11	(5)	6
Other consumer loans/leases	**1,220**	**15**	**4.97**	1,271	17	5.48	(1)	(1)	(2)
Subtotal consumer	**34,618**	**524**	**6.08**	35,158	597	6.81	(5)	(68)	(73)
Total loans and leases	**85,212**	**1,053**	**4.97**	77,048	1,346	7.01	132	(425)	(293)
Securities:									
Taxable	**12,554**	**151**	**4.83**	11,030	137	4.98	18	(4)	14
Exempt from income taxes *(b)*	**364**	**7**	**7.32**	508	9	7.38	(2)		(2)
Other short-term investments	**445**	**2**	**2.12**	203	3	5.18	1	(2)	(1)
Total interest-earning assets	**98,575**	**1,213**	**4.95**	88,789	1,495	6.75	149	(431)	(282)
Cash and due from banks	**2,357**			2,235					
Other assets	**12,370**			10,524					
Allowance for loan and lease losses	**(1,204)**			(781)					
Total assets	**$ 112,098**			$ 100,767					
Liabilities									
Interest-bearing liabilities:									
Interest checking	**$ 14,396**	**$ 28**	**0.78%**	$ 15,061	$ 83	2.21%	$ (4)	$ (51)	$ (55)
Savings	**16,583**	**48**	**1.16**	14,620	118	3.23	14	(84)	(70)
Money market	**6,592**	**29**	**1.76**	6,244	69	4.44	4	(44)	(40)
Foreign office deposits	**2,169**	**8**	**1.42**	1,637	18	4.38	5	(15)	(10)
Other time deposits	**9,517**	**83**	**3.52**	10,780	124	4.63	(13)	(28)	(41)
Certificates - $100,000 and over	**8,143**	**67**	**3.29**	6,511	83	5.12	18	(34)	(16)
Other foreign office deposits	**2,948**	**15**	**2.10**	732	10	5.31	14	(9)	5
Federal funds purchased	**3,643**	**19**	**2.08**	3,540	47	5.31	1	(29)	(28)
Other short-term borrowings	**5,623**	**30**	**2.15**	2,372	25	4.31	22	(17)	5
Long-term debt	**14,803**	**142**	**3.85**	12,238	173	5.65	31	(62)	(31)

Total interest-bearing liabilities	**84,417**	**469**	**2.23**	73,735	750	4.08	92	(373)	(281)
Demand deposits	**14,023**			13,370					
Other liabilities	**4,029**			4,063					
Total liabilities	**102,469**			91,168					
Shareholders equity	**9,629**			9,599					
Total liabilities and shareholders equity	**$ 112,098**			$ 100,767					
Net interest income		**$ 744**			$ 745		$ 57	$ (58)	$ (1)
Net interest margin			**3.04%**			3.37%			
Net interest rate spread			**2.72**			2.67			
Interest-bearing liabilities to interest-earning assets			**85.64**			83.05			

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

(b) *The fully taxable-equivalent adjustments included in the above table are $6 million for the three months ended June 30, 2008 and 2007.*

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

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

For the six months ended	June 30, 2008			June 30, 2007			Attribution of Change in Net Interest Income *(a)*		
($ in millions)	Average Balance	Revenue/ Cost	Average Yield/ Rate	Average Balance	Revenue/ Cost	Average Yield/ Rate	Volume	Yield/Rate	Total
Assets									
Interest-earning assets:									
Loans and leases *(b)*:									
Commercial loans	$ 27,587	$ 754	5.50%	$ 21,249	$ 788	7.48%	$ 204	$ (238)	$ (34)
Commercial mortgage	12,321	374	6.10	10,799	391	7.31	52	(69)	(17)
Commercial construction	5,639	155	5.54	5,803	222	7.72	(6)	(61)	(67)
Commercial leases	3,735	(51)	(2.76)	3,669	79	4.33	1	(131)	(130)
Subtotal commercial	49,282	1,232	5.03	41,520	1,480	7.19	251	(499)	(248)
Residential mortgage loans	11,472	349	6.12	10,184	310	6.14	40	(1)	39
Home equity	11,929	358	6.03	11,979	456	7.67	(1)	(97)	(98)
Automobile loans	9,491	299	6.33	10,392	321	6.21	(28)	6	(22)
Credit card	1,681	77	9.22	1,135	64	11.31	27	(14)	13
Other consumer loans/leases	1,207	31	5.24	1,247	32	5.29	(1)		(1)
Subtotal consumer	35,780	1,114	6.26	34,937	1,183	6.83	37	(106)	(69)
Total loans and leases	85,062	2,346	5.55	76,457	2,663	7.02	288	(605)	(317)
Securities:									
Taxable	12,057	298	4.97	10,991	273	5.02	27	(2)	25
Exempt from income taxes *(b)*	383	14	7.32	521	19	7.39	(5)		(5)
Other short-term investments	540	7	2.69	214	6	5.45	5	(4)	1
Total interest-earning assets	98,042	2,665	5.47	88,183	2,961	6.77	315	(611)	(296)
Cash and due from banks	2,296			2,243					
Other assets	12,424			10,333					
Allowance for loan and lease losses	(1,068)			(775)					
Total assets	$ 111,694			$ 99,984					
Liabilities									
Interest-bearing liabilities:									
Interest checking	$ 14,616	$ 81	1.11%	$ 15,284	$ 171	2.26%	$ (7)	$ (83)	$ (90)
Savings	16,329	120	1.48	14,157	228	3.25	31	(139)	(108)
Money market	6,744	76	2.26	6,310	139	4.45	9	(72)	(63)
Foreign office deposits	2,306	23	1.98	1,491	32	4.36	13	(22)	(9)
Other time deposits	10,201	200	3.94	10,908	250	4.61	(15)	(35)	(50)
Certificates - $100,000 and over	6,989	131	3.77	6,596	168	5.15	10	(47)	(37)
Other foreign office deposits	3,405	46	2.74	549	15	5.31	41	(10)	31
Federal funds purchased	4,451	62	2.77	3,026	80	5.31	29	(47)	(18)
Other short-term borrowings	5,280	67	2.56	2,386	51	4.34	44	(28)	16
Long-term debt	14,064	289	4.15	12,239	340	5.60	46	(97)	(51)

Total interest-bearing liabilities	**84,385**	**1,095**	**2.61**	72,946	1,474	4.07	201	(580)	(379)
Demand deposits	**13,615**			13,278					
Other liabilities	**4,190**			3,977					
Total liabilities	**102,190**			90,201					
Shareholders equity	**9,504**			9,783					
Total liabilities and shareholders equity	**$ 111,694**			$ 99,984					
Net interest income		**$ 1,570**			$ 1,487		$ 114	$ 31	$ 83
Net interest margin			**3.22%**			3.40%			
Net interest rate spread			**2.86**			2.70			
Interest-bearing liabilities to interest-earning assets			**86.07**			82.72			

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

(b) *The fully taxable-equivalent adjustments included in the above table are $11 million and $12 million for the six months ended June 30, 2008 and 2007.*

Interest expense on wholesale funding decreased 19% compared to the prior year quarter as declining interest rates more than offset a 38% increase in average balances. During the past year, the federal funds target rate decreased 325 bp from a target of 2.00% at June 30, 2008 compared to 5.25% at June 30, 2007. Interest expense on wholesale funding decreased $51 million, or 16%, since the first quarter of 2008. This decrease was a result of a full quarter effect of the decreases in the federal funds rate totaling 200 bp during the first quarter of 2008, partially offset by a six percent increase in average balances.

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

The Bancorp s net free funding position decreased six percent from $15.1 billion in the second quarter of 2007 to $14.2 billion in the second quarter of 2008. The decrease in the net free funding position since the second quarter of 2007 was primarily a result of the increase in non-earning assets of $1.5 billion.

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. Actual credit losses on loans and leases are charged against the allowance for loan and lease losses. The amount of loans actually removed from the Condensed Consolidated Balance Sheets is referred to as charge-offs. Net charge-offs include current period charge-offs less recoveries on previously charged-off loans and leases.

The provision for loan and lease losses increased to $719 million in the second quarter of 2008 compared to $121 million in the same period last year. The primary factors in the increase were the increase in delinquencies, the deterioration in real estate collateral values in certain of the Bancorp s key lending markets and declines in general economic conditions. As of June 30, 2008, the allowance for loan and lease losses as a percent of loans and leases increased to 1.85% from 1.06% at June 30, 2007.

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

Noninterest Income

For the three months ended June 30, 2008, noninterest income increased by $53 million, or eight percent, on a year-over-year basis. The components of noninterest income for these periods are as follows:

TABLE 4: Noninterest Income

($ in millions)	For the three months ended June 30, 2008	2007	Percent Change	For the six months ended June 30, 2008	2007	Percent Change
Electronic payment processing revenue	**$ 235**	205	15	**$ 447**	390	15
Service charges on deposits	**159**	142	12	**307**	268	14
Corporate banking revenue	**111**	88	26	**218**	171	28
Investment advisory revenue	**92**	97	(5)	**185**	193	(4)
Mortgage banking net revenue	**86**	41	108	**182**	81	126
Other noninterest income	**49**	96	(49)	**228**	174	31
Securities (losses) gains, net	**(10)**		NM	**17**		NM
Securities gains, net non-qualifying hedges on mortgage servicing rights				**3**		
Total noninterest income	**$ 722**	669	8	**$ 1,587**	1,277	24

NM Percentage change is not meaningful.

Electronic payment processing revenue increased $30 million, or 15%, in the second quarter of 2008 compared to the same period last year as the Bancorp realized growth in each of its three product lines. Merchant processing revenue increased 16%, to $88 million, compared to the same period in 2007. Financial institutions revenue increased to $84 million, up $8 million or 10%, compared to the second quarter of 2007 as a result of continued success in attracting financial institution customers. Card issuer interchange increased 20%, to $63 million, compared to the same period in 2007 due to continued growth related to debit and credit card usage and increases in the average dollar amount per debit card transaction. The Bancorp processes over 26.7 billion transactions annually and handles electronic processing for over 158,000 merchant locations worldwide.

Service charges on deposits were up $17 million, or 12%, in the second quarter of 2008 compared to the same period last year. Commercial deposits revenue increased 19%, or $11 million, compared to the same quarter last year. This increase was primarily impacted by a decrease in earnings credits on compensating balances resulting from the change in short-term interest rates. Commercial customers receive earnings credits to offset the fees charged for banking services on their deposit accounts such as account maintenance, lockbox, ACH transactions, wire transfers and other ancillary corporate treasury management services. Earnings credits are based on the customer s average balance in qualifying deposits multiplied by the crediting rate. Qualifying deposits include demand deposits and interest-bearing checking accounts. The Bancorp has a standard crediting rate that is adjusted as necessary based on competitive market conditions and changes in short-term interest rates. Retail deposit revenue increased seven percent in the second quarter of 2008 compared to the same period last year. The increase in retail service charges was attributable to higher customer activity and growth in the number of customer accounts. Growth in the number of customer deposit account relationships and deposit generation continues to be a primary focus of the Bancorp.

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

Corporate banking revenue increased $23 million to $111 million in the second quarter of 2008, up 26% over the comparable period in 2007. The growth in corporate banking revenue was largely attributable to higher foreign exchange derivative income of $26 million, an increase of $12 million compared to the prior year quarter. Growth also occurred in business lending fees, which grew $4 million in the second quarter of 2008 to $22 million. The Bancorp is committed to providing a comprehensive range of financial services to large and middle-market businesses and continues to see opportunities to expand its product offering.

Investment advisory revenue decreased $5 million, or five percent, from the second quarter of 2007. The Bancorp experienced broad-based decreases in several categories within investment advisory revenue. Brokerage fee income, which includes Fifth Third Securities income, decreased $4 million, or 12%, in the second quarter of 2008 as investors migrated balances from stock and bond funds to money markets funds. Mutual fund revenue decreased 10%, to $14 million, in the second quarter of 2008 due to market volatility. As of June 30, 2008, the Bancorp had approximately $207 billion in assets under care and managed $31 billion in assets for individuals, corporations and not-for-profit organizations.

Mortgage banking net revenue increased to $86 million in the second quarter of 2008 from $41 million in the same period last year. The components of mortgage banking net revenue for the three and six months ended June 30, 2008 and 2007 are shown in Table 5.

TABLE 5: Components of Mortgage Banking Net Revenue

($ in millions)	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Origination fees and gains on loan sales	**$ 79**	25	**$ 171**	51
Servicing revenue:				
Servicing fees	**42**	36	**83**	69
Servicing rights amortization	**(31)**	(23)	**(64)**	(43)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**(4)**	3	**(8)**	4
Net servicing revenue	**7**	16	**11**	30
Mortgage banking net revenue	**$ 86**	41	**$ 182**	81

Mortgage banking revenue increased significantly compared to the prior year quarter due to growth in originations, higher sales margins and the impact of the adoption of SFAS No. 159 for residential mortgage loans held for sale. Mortgage originations increased 1% to $3.3 billion in comparison to the same quarter last year despite lower commensurate application volumes as interest rates decreased compared to the second quarter of 2007. Additionally, the Bancorp benefited from the exit or scaling back of its competitors within the mortgage business. The increase in loan sales and higher sales margins contributed $13 million and $23 million, respectively, to the increase in mortgage banking revenue. Loan sales and the related sales margins increased for both held for sale and portfolio mortgage loans. The adoption of SFAS No. 159 on January 1, 2008 for residential mortgage loans held for sale also contributed approximately $17 million to the increase in mortgage banking revenue. Prior to adoption, mortgage loan origination costs were capitalized as part of the carrying amount of the loan and recognized as a reduction of mortgage banking net revenue upon the sale of the loans. Subsequent to the adoption, mortgage loan origination costs are recognized as expense when incurred and included in noninterest expense within the Condensed Consolidated Statements of Income.

Mortgage net servicing revenue decreased $9 million compared to the second quarter of 2007. Net servicing revenue is comprised of gross servicing fees and related amortization as well as valuation adjustments on mortgage servicing rights and mark-to-market adjustments on both settled and outstanding free-standing derivative financial instruments. The Bancorp s total residential mortgage loans serviced at June 30, 2008 and 2007 was $49.4 billion and $41.6 billion, respectively, with $38.7 billion and $31.5 billion, respectively, of residential mortgage loans serviced for others.

Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing rates. Temporary impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. Further detail on the valuation of mortgage servicing rights can be found in Note 5 of the Notes to the Condensed Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in impairment on the MSR portfolio. The Bancorp recognized a loss from MSR derivatives of $84 million, offset by a reversal of temporary impairment of $80 million, resulting in a net loss of $4 million for the three months ended June 30, 2008 related to changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for more information on the free-standing derivatives used to hedge the MSR portfolio.

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

The major components of other noninterest income are as follows:

TABLE 6: Components of Other Noninterest Income

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Consumer loan and lease fees	$ **14**	11	$ **25**	21
Cardholder fees	**13**	13	**28**	26
Bank owned life insurance income (loss)	**12**	21	**(123)**	42
Operating lease income	**11**	7	**21**	14
Insurance income	**10**	9	**21**	16
Gain (loss) on loan sales	**1**	16	**(10)**	17
Gain on redemption of Visa, Inc. ownership interests			**273**	
Loss on sale of other real estate owned	**(19)**	(2)	**(26)**	(4)
Other	**7**	21	**19**	42
Total other noninterest income	$ **49**	96	$ **228**	174

Other noninterest income decreased $47 million in the second quarter of 2008 compared to the same period last year. The decrease was primarily due to increased losses on the sale of other real estate owned in the second quarter of 2008 compared to the same quarter last year resulting from an increase in the volume of properties and a loss related to three commercial properties in Florida of approximately $5 million. Additionally, the Bancorp recognized a $16 million gain in the second quarter of 2007 on the sale of non-strategic credit card accounts included within the Other caption of Table 6.

Noninterest Expense

During the second quarter of 2008, the Bancorp continued its investment in the expansion of the retail distribution network and in its information technology infrastructure. The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 58.6% and 54.1% for the second quarter of 2008 and 2007, respectively. The Bancorp continues to focus on efficiency initiatives, as part of its core emphasis on operating leverage, and on expense control, although cost savings initiatives will continue to be somewhat mitigated by investments in new de novo branches. The Bancorp views investments in information technology and banking center expansion as its platform for future growth and increasing expense efficiency.

Total noninterest expense increased $93 million, or 12%, in the second quarter of 2008 compared to the same period last year. Noninterest expense increased due to higher personnel costs, increased volume-related processing expenses and an increase in net occupancy expense.

The major components of noninterest expense are as follows:

TABLE 7: Noninterest Expense

($ in millions)	For the three months ended June 30, 2008	2007	Percent Change	For the six months ended June 30, 2008	2007	Percent Change
Salaries, wages and incentives	$ **331**	309	7	$ **679**	601	13
Employee benefits	**60**	68	(11)	**145**	155	(7)
Net occupancy expense	**73**	68	8	**145**	133	9

Payment processing expense	**67**	59	14	**133**	111	20
Technology and communications	**49**	41	18	**96**	81	18
Equipment expense	**31**	31		**61**	60	2
Other noninterest expense	**247**	189	31	**317**	376	(16)
Total noninterest expense	**$ 858**	765	12	**$ 1,576**	1,517	4

Total personnel costs (salaries, wages and incentives plus employee benefits) increased 4% due primarily to approximately $17 million in mortgage origination costs that prior to the adoption of SFAS No. 159 on January 1, 2008, were included as a component of mortgage banking revenue. Full time equivalent employees totaled 21,617 as of June 30, 2008 compared to 21,033 as of June 30, 2007.

Net occupancy expenses increased eight percent in the second quarter of 2008 over the same period last year due to the addition of 141 banking centers since June 30, 2007. Growth includes 96 banking centers resulting from acquisitions by the Bancorp since June 30, 2007. The Bancorp remains focused on expanding its retail franchise through de novo growth. Payment processing expense includes third-party processing expenses, card management fees and other bankcard processing expenses. Payment processing expense increased 14% compared to the same period last year due to higher network charges of $8 million, or 20%, from increased processing volumes of 17% and 12% in the merchant and financial institutions businesses, respectively.

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

The major components of other noninterest expense are as follows:

TABLE 8: Components of Other Noninterest Expense

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Loan processing	$ **39**	32	$ **76**	55
Marketing	**25**	20	**44**	38
FDIC insurance and other taxes	**18**	3	**29**	13
Affordable housing investments	**16**	11	**31**	24
Professional services fees	**16**	11	**28**	23
Travel	**14**	13	**27**	25
Postal and courier	**13**	13	**27**	26
Intangible asset amortization	**12**	10	**23**	21
Recruitment and education	**8**	10	**17**	21
Supplies	**8**	7	**16**	14
Operating lease	**7**	5	**14**	10
Visa litigation accrual			**(152)**	
Other	**71**	54	**137**	106
Total other noninterest expense	$ **247**	189	$ **317**	376

Total other noninterest expense increased by $58 million from the same quarter last year. Expense in the second quarter of 2008 included $13 million in acquisition-related expenses as a result of the First Charter and First Horizon acquisitions. FDIC insurance and other taxes were higher due to the favorable settlement of certain tax audits, which reduced expense in the second quarter of 2007 in addition to the depletion of the Bancorp s prior FDIC insurance premium credits in the second quarter of 2008. Loan processing expense was higher in comparison to the same quarter last year as a result of increased collection activities. In addition, the provision for unfunded commitments increased $12 million compared to the second quarter of 2007.

Applicable Income Taxes

The Bancorp s income (loss) before income taxes, applicable income tax expense and effective tax rate for each of the periods indicated are as follows:

TABLE 9: Applicable Income Taxes

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Income (loss) before income taxes	$ **(117)**	522	$ **307**	1,030
Applicable income taxes	**85**	146	**223**	295
Effective tax rate	**(72.4)%**	28.1	**72.6**	28.7

Applicable income tax expense for all periods includes the benefit from tax-exempt income, tax-advantaged investments and general business tax credits, partially offset by the effect of nondeductible expenses. The effective tax rates for the three and six months ended June 30, 2008 were primarily impacted by a charge to tax expense of approximately $140 million in the second quarter of 2008 required for interest related to the tax treatment of certain of the Bancorp s leveraged leases for previous tax years. See Note 11 of the Notes to Condensed Consolidated Financial Statements for further information.

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

BUSINESS SEGMENT REVIEW

The Bancorp reports on five business segments: Commercial Banking, Branch Banking, Consumer Lending, Processing Solutions and Investment Advisors. Further detailed financial information on each business segment is included in Note 17 of the Notes to Condensed Consolidated Financial Statements.

Results of the Bancorp s business segments are presented based on its management structure and management accounting practices. The structure and accounting practices are specific to the Bancorp; therefore, the financial results of the Bancorp s business segments are not necessarily comparable with similar information for other financial institutions. The Bancorp refines its methodologies from time to time as management accounting practices are improved and businesses change. During the fourth quarter of 2007, the Bancorp changed the reporting of Processing Solutions to include certain revenues and expenses related to credit card processing that were previously listed under the Commercial and Branch Banking segments. Revisions to the Bancorp s methodologies are applied on a retroactive basis.

The Bancorp manages interest rate risk centrally at the corporate level by employing a funds transfer pricing (FTP) methodology. This methodology insulates the business segments from interest rate volatility, enabling them to focus on serving customers through loan originations and deposit taking. The FTP system assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on expected duration and the LIBOR swap curve. Matching duration allocates interest income and interest expense to each segment so its resulting net interest income is insulated from interest rate risk. In a rising rate environment, the Bancorp benefits from the widening spread between deposit costs and wholesale funding costs. However, the Bancorp s FTP system credits this benefit to deposit-providing businesses, such as Branch Banking and Investment Advisors, on a duration-adjusted basis. The net impact of the FTP methodology is captured in General Corporate and Other.

Management made several changes to the FTP methodology in the fourth quarter of 2007 to more appropriately calculate FTP charges and credits to each of the Bancorp s business segments. Changes to the FTP methodology were applied retroactively and included adding a liquidity premium to loans and deposits to properly reflect the Bancorp s marginal cost of longer term funding. In addition, an FTP charge on fixed assets was added to the new FTP methodology.

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

TABLE 10: Business Segment Results

	For the three months ended June 30,		For the six months ended June 30,	
($ in millions)	**2008**	**2007**	**2008**	**2007**
Commercial Banking	**$ 114**	176	**$ 249**	349
Branch Banking	**148**	156	**287**	304
Consumer Lending	**(1)**	42	**39**	83
Processing Solutions	**47**	39	**85**	74
Investment Advisors	**28**	24	**58**	47
General Corporate and Other	**(538)**	(61)	**(634)**	(122)
Net income (loss)	**$ (202)**	376	**$ 84**	735

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

Commercial Banking

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

TABLE 11: Commercial Banking

($ in millions)	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Income Statement Data				
Net interest income (FTE) *(a)*	$ **350**	325	$ **708**	646
Provision for loan and lease losses	**156**	31	**281**	48
Noninterest income:				
Corporate banking revenue	**101**	80	**203**	156
Service charges on deposits	**46**	38	**90**	75
Other noninterest income	**11**	14	**25**	31
Noninterest expense:				
Salaries, incentives and benefits	**74**	62	**152**	132
Other noninterest expenses	**142**	132	**286**	258
Income before taxes	**136**	232	**307**	470
Applicable income taxes *(a)*	**22**	56	**58**	121
Net income	$ **114**	176	$ **249**	349
Average Balance Sheet Data				
Commercial loans	$ **43,081**	34,870	$ **41,836**	34,449
Demand deposits	**6,085**	5,925	**5,933**	5,934
Interest checking	**4,352**	3,933	**4,612**	3,983
Savings and money market	**4,492**	4,426	**4,580**	4,577
Certificates over $100,000 and other time	**1,810**	1,994	**1,805**	1,976
Foreign office deposits	**1,878**	1,378	**1,982**	1,231

(a) Includes taxable-equivalent adjustments of $4 million and $3 million for the three months ended June 30, 2008 and 2007, respectively, and $7 million for the six months ended June 30, 2008 and 2007.

Net income decreased $62 million, or 35%, compared to the second quarter of 2007 as strong growth in net interest income and corporate banking revenue was more than offset by increased provision for loan and lease losses. Average commercial loans and leases increased 24% to $43.1 billion over the same quarter last year due to solid loan production across most of the Bancorp s footprint and the result of acquisitions since the second quarter of 2007. Excluding acquisitions, commercial loans increased approximately 22% compared to the second quarter of 2007. Average core deposits increased seven percent due to growth in interest checking and foreign office deposits. The segment is focusing on growing deposits through deeper penetration of its premium customer base. The growth in loans and deposits resulted in increased net interest income of $25 million, or eight percent, compared to the same period last year. Net charge-offs as a percent of average loans and leases increased to 146 bp from 37 bp in the second quarter of 2007. Net charge-offs increased in comparison to the prior year quarter due to weakening economies and the continuing deterioration of credit within the Bancorp s footprint, particularly in Michigan and Florida, involving commercial and commercial construction loans. Homebuilder and developer loans accounted for approximately 20% of net charge-offs during the second quarter of 2008.

Noninterest income increased $26 million, or 20%, compared to the same quarter last year due to corporate banking revenue growth of $21 million, or 26%, and an increase in service charges on deposits of $8 million. Corporate banking revenue increased as a result of growth in foreign exchange derivative income, which was $23 million during the second quarter of 2008, an increase of $10 million. Additionally, the segment experienced growth in both asset securitization and lease remarketing fees in the second quarter of 2008. Service charges on deposits increased 22%, to $46 million, compared to the second quarter of 2007. The increase in service charges was a result of higher business service charges and a reduction in the amount of offsetting earnings credits as short-term rates remain lower than the same quarter last year.

Noninterest expense increased $22 million, or 12%, compared to the second quarter of 2007 primarily due to sales incentives of $28 million, an increase of $10 million compared to the second quarter of 2007. In addition, affordable housing investments expense increased due to higher volume compared to the second quarter of 2007.

The previously mentioned $229 million after-tax charge related to certain leveraged lease assets included in the average balance sheet data shown above has been excluded from the income statement data and included in the General Corporate & Other segment.

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

Branch Banking

Branch Banking provides a full range of deposit and loan and lease products to individuals and small businesses through 1,308 full-service banking centers. Branch Banking offers depository and loan products, such as checking and savings accounts, home equity loans and lines of credit, credit cards and loans for automobile and other personal financing needs, as well as products designed to meet the specific needs of small businesses, including cash management services. The table below contains selected financial data for the Branch Banking segment.

TABLE 12: Branch Banking

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Income Statement Data				
Net interest income	$ **400**	362	$ **784**	707
Provision for loan and lease losses	**75**	38	**139**	60
Noninterest income:				
Service charges on deposits	**111**	104	**213**	191
Electronic payment processing	**49**	45	**92**	85
Investment advisory income	**24**	25	**46**	47
Other noninterest income	**28**	21	**52**	45
Noninterest expense:				
Salaries, incentives and benefits	**126**	118	**254**	236
Net occupancy and equipment expenses	**49**	44	**97**	85
Other noninterest expenses	**133**	116	**253**	225
Income before taxes	**229**	241	**444**	469
Applicable income taxes	**81**	85	**157**	165
Net income	$ **148**	156	$ **287**	304
Average Balance Sheet Data				
Consumer loans	$ **12,557**	11,619	$ **12,457**	11,659
Commercial loans	**5,515**	5,135	**5,412**	5,157
Demand deposits	**6,023**	5,826	**5,855**	5,773
Interest checking	**8,115**	9,045	**8,042**	9,214
Savings and money market	**16,535**	14,392	**16,285**	13,884
Certificates over $100,000 and other time	**11,837**	14,014	**12,774**	14,534

Net income decreased $8 million, or five percent, compared to the second quarter of 2007 as increases in net interest income and service fees were more than offset by increased expenses related to salaries, de novo expansion and higher provision for loan and lease losses. Net interest income increased 10% compared to the second quarter of 2007 due to loan growth and the segment focusing on the repricing of both loans and deposits. Average loans and leases increased eight percent compared to the second quarter of 2007 as the segment grew credit card balances by $417 million, or 39%, resulting from an increased focus on relationships with its current customers through the cross-selling of credit cards. Average core deposits were down slightly in comparison to the second quarter of 2007 with growth in savings and money market accounts offset by decreases in interest checking deposits and consumer CDs. Consumer CDs were down 15% from the second quarter of 2007 due to the Bancorp lowering the rates offered on this product as the Bancorp believed competitor pricing was not reflective of the value of these deposits. Excluding acquisitions since the second quarter of 2007, average core deposits decreased four percent. Net charge-offs as a percent of average loan and leases increased to 169 bp from 93 bp in the second quarter of 2007. Net charge-offs increased in comparison to the prior year quarter as the Bancorp experienced higher charge-offs involving home equity lines and loans reflecting borrower stress and a decrease in home prices within the Bancorp s footprint.

Noninterest income increased $17 million compared to the second quarter of 2007 primarily due to an increase in service charges on deposits of $7 million, or eight percent. The increase in deposit fees, including overdraft fees, can be attributed to higher customer activity in comparison to the second quarter of 2007. Noninterest expense increased 11% compared to the second quarter of 2007 as net occupancy and equipment costs increased 14% as a result of additional banking centers acquired as well as the continued opening of new banking centers related to the Bancorp s de novo growth strategy. Since the second quarter of 2007, the Bancorp s banking centers have increased by 141 to 1,308 as of June 30, 2008. Acquisitions since the second quarter of 2007 contributed 96 banking centers to this growth. Other noninterest expense increased 15%, which can be attributed to higher loan cost associated with collections. The Bancorp continues to position itself for sustained long-term growth through new banking center additions in key markets.

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

Consumer Lending

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

TABLE 13: Consumer Lending

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Income Statement Data				
Net interest income	$ **104**	99	$ **220**	201
Provision for loan and lease losses	**104**	27	**180**	54
Noninterest income:				
Mortgage banking net revenue	**78**	39	**170**	75
Other noninterest income	**7**	18	**27**	34
Noninterest expense:				
Salaries, incentives and benefits	**34**	18	**73**	39
Other noninterest expenses	**53**	46	**104**	89
Income (loss) before taxes	**(2)**	65	**60**	128
Applicable income taxes	**(1)**	23	**21**	45
Net income (loss)	$ **(1)**	42	$ **39**	83
Average Balance Sheet Data				
Residential mortgage loans	$ **10,806**	9,996	$ **11,017**	9,926
Automobile loans	**7,486**	9,583	**8,523**	9,422
Home equity	**1,159**	1,364	**1,188**	1,362
Consumer leases	**791**	944	**789**	992

Net income decreased $43 million, to a loss of $1 million, compared to the second quarter of 2007 as the increase in mortgage banking net revenue, net of related expenses, was more than offset by growth in provision for loan and lease losses. Average residential mortgage loans increased eight percent compared to the prior year quarter primarily related to acquisitions since the second quarter of 2007. Excluding acquisitions, residential mortgage loans decreased approximately five percent from the same quarter last year. Net charge-offs as a percent of average loan and leases increased from 54 bp in the second quarter of 2007 to 217 bp in the second quarter of 2008. Net charge-offs, primarily in residential mortgage loans, increased in comparison to the prior year quarter due to deteriorating real estate values within the Bancorp s footprint, particularly in Florida. The segment continues to focus on managing credit risk through the restructuring of certain residential mortgage and home equity loans and careful consideration of underwriting and collection standards. As of June 30, 2008, the Bancorp had restructured approximately $201 million of real estate secured loans to mitigate losses due to declining collateral values.

Consumer Lending had mortgage originations of $3.3 billion, an increase of three percent over the same quarter last year. The Bancorp remains committed to being a prime mortgage originator and origination volumes have benefited from the recent downturn in the credit cycle as many competitors have exited or scaled back their mortgage businesses. The increase in originations and increased sale margins were the primary reasons for increased mortgage banking net revenue of $39 million compared to the second quarter of 2007. Also contributing to the increase in mortgage banking net revenue in the second quarter of 2008 was a $17 million impact from the adoption of SFAS No. 159, as of January 1, 2008, on residential mortgage loans held for sale. Prior to adoption, mortgage loan origination costs were capitalized as part of the carrying amount of the loan and recognized as a reduction of mortgage banking net revenue upon the sale of the loans. Subsequent to the adoption, mortgage loan origination costs are recognized in earnings when incurred, which primarily drove the increase in salaries and incentives of $16 million in comparison to the same quarter last year.

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Processing Solutions

Fifth Third Processing Solutions provides electronic funds transfer, debit, credit and merchant transaction processing, operates the Jeanie® ATM network and provides other data processing services to affiliated and unaffiliated customers. The table below contains selected financial data for the Processing Solutions segment.

TABLE 14: Processing Solutions

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Income Statement Data				
Net interest income	$	(1)	$ 1	(1)
Provision for loan and lease losses	3	3	7	5
Noninterest income:				
Financial institutions processing	96	79	186	158
Merchant processing	89	77	166	141
Card issuer interchange	21	16	40	31
Other noninterest income	10	10	23	19
Noninterest expense:				
Salaries, incentives and benefits	20	19	40	37
Payment processing expense	65	57	129	108
Other noninterest expenses	56	41	108	84
Income before taxes	72	61	132	114
Applicable income taxes	25	22	47	40
Net income	$ 47	39	$ 85	74

Net income increased $8 million, or 19%, compared to the second quarter of 2007 as the segment continues to increase its presence in the electronic payment processing business. The segment continues to realize year-over-year double-digit growth in transaction volumes and revenue growth, despite the slowdown in consumer spending, due to the addition and conversion of large national clients over the past year and current initiatives involving merchant pricing and sales. Financial institutions processing revenues increased $17 million, or 22%, driven by higher debit card usage volumes. Contributing to the revenue growth is the segment s acceleration of conversion efforts for financial institution customers from the first quarter of 2008. Merchant processing revenue increased $12 million, or 14%, over the same quarter last year. Growth in card issuer interchange of $5 million, or 36%, can be attributed to organic growth in the Bancorp s credit card portfolio. The Bancorp continues to see significant opportunities to attract new financial institution customers and retailers within this business segment.

Payment processing expense increased 14% from the second quarter of 2007 due to higher network charges, increasing 19% to $47 million, resulting from increased transaction volumes. Financial institution transactions and merchant transactions processed increased 12% and 17%, respectively, over the second quarter of 2007. The segment continues to see expenses moderate to be more consistent with revenue growth as the business is able to leverage its size and its large national clients, signed over the past year, are fully converted.

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Investment Advisors

Investment Advisors provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. The Bancorp s primary services include investments, trust, asset management, retirement plans and custody. Fifth Third Securities, Inc., an indirect wholly-owned subsidiary of the Bancorp, offers full service retail brokerage services to individual clients and broker dealer services to the institutional marketplace. Fifth Third Asset Management, Inc., an indirect wholly-owned subsidiary of the Bancorp, provides asset management services and also advises the Bancorp s proprietary family of mutual funds. The table below contains selected financial data for the Investment Advisors segment.

TABLE 15: Investment Advisors

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Income Statement Data				
Net interest income	**$ 47**	38	**$ 91**	74
Provision for loan and lease losses	**5**	2	**10**	5
Noninterest income:				
Investment advisory income	**93**	99	**188**	195
Other noninterest income	**8**	5	**15**	11
Noninterest expense:				
Salaries, incentives and benefits	**40**	41	**81**	84
Other noninterest expenses	**59**	62	**113**	118
Income before taxes	**44**	37	**90**	73
Applicable income taxes	**16**	13	**32**	26
Net income	**$ 28**	24	**$ 58**	47
Average Balance Sheet Data				
Loans	**$ 3,604**	3,162	**$ 3,521**	3,136
Core deposits	**4,796**	5,039	**4,975**	4,995

Net income increased $4 million compared to the second quarter of 2007 as the segment grew loans and benefited from an overall decrease in interest rates to increase net interest income $9 million, or 24%, as the spread widened due to decreases in funding costs. Investment advisors realized average loan growth of 14% and a decrease in average core deposits of five percent compared to the same quarter a year ago.

Noninterest income decreased $3 million, or three percent, compared to the second quarter of 2007, as investment advisory income decreased six percent, to $93 million, with decreases realized across all types of investment advisory revenue. Trust income decreased three percent compared to the second quarter of 2007. Broker income decreased 10% as the equity markets remained volatile throughout the second quarter of 2008. In addition, the decrease in broker income was driven by clients moving to lower fee, cash based products from equity products and a drop in transaction based revenues. As of June 30, 2008, the Bancorp had $207 billion in assets under care and $31 billion in managed assets, modestly lower than the previous year quarter. Noninterest expense decreased $4 million compared to the prior year quarter as the segment continues to focus on expense control.

General Corporate and Other

General Corporate and Other includes the unallocated portion of the investment securities portfolio, securities gains/losses, certain non-core deposit funding, unassigned equity, provision expense in excess of net charge-offs and certain support activities and other items not attributed to the business segments.

The results of General Corporate and Other were primarily impacted by the leveraged lease charge of approximately $130 million, both pre-tax and after-tax, reflected as a reduction in interest income and an increase of approximately $140 million in tax expense. The leveraged lease charge is due to recent court decisions related to leveraged leases and uncertainty regarding the outcome of outstanding litigation involving the Bancorp s leveraged leases. Additionally, the provision for loan and lease losses increased significantly from $20 million in the second quarter of 2007 to $376 million in the second quarter of 2008.

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

BALANCE SHEET ANALYSIS

Loans and Leases

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

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

($ in millions)	June 30, 2008 Balance	% of Total	December 31, 2007 Balance	% of Total	June 30, 2007 Balance	% of Total
Commercial:						
Commercial loans	**$ 28,958**	**33**	$ 26,079	31	$ 22,162	29
Commercial mortgage loans	**13,394**	**16**	11,967	14	11,112	14
Commercial construction loans	**6,007**	**7**	5,561	6	5,469	7
Commercial leases	**3,647**	**4**	3,737	5	3,698	5
Subtotal commercial	**52,006**	**60**	47,344	56	42,441	55
Consumer:						
Residential mortgage loans	**10,704**	**13**	11,433	14	10,038	13
Home equity	**12,421**	**14**	11,874	14	11,780	15
Automobile loans	**8,362**	**10**	11,183	13	10,714	14
Credit card	**1,717**	**2**	1,591	2	1,263	2
Other consumer loans and leases	**1,203**	**1**	1,157	1	1,181	1
Subtotal consumer	**34,407**	**40**	37,238	44	34,976	45
Total loans and leases	**$ 86,413**	**100**	$ 84,582	100	$ 77,417	100

Total loans and leases increased $9.0 billion, or 12%, over the second quarter of 2007. The growth in total loans and leases was due to increased loan production across the Bancorp s footprint primarily driven by the growth in commercial loans of $6.5 billion. Acquisitions since the second quarter of 2007 drove growth in commercial mortgage and residential mortgage loans by $1.1 billion and $1.7 billion, respectively, offset by a decrease in automobile loans due to securitization activity in the first quarter of 2008.

Total commercial loans and leases increased $9.6 billion, or 23%, compared to June 30, 2007. The increase was primarily due to strong growth in commercial loans of 31% compared to the second quarter of 2007 resulting from increased loan production. Commercial mortgage loans increased 21% over the second quarter of 2007, which included the impact of acquisitions since the second quarter of 2007 of $1.1 billion. The overall mix of commercial loans and leases is relatively consistent with prior periods.

Total consumer loans and leases decreased $569 million, or two percent, compared to the second quarter of 2007, as a result of the decrease in automobile loans partially offset by residential mortgage and home equity loan growth and increased promotion of credit cards. Residential mortgage loans were $10.7 billion at June 30, 2008, an increase of seven percent over the second quarter of 2007, with growth driven by approximately $1.7 billion of loans from acquisitions. Home equity loans increased $641 million, primarily due to acquisitions since the second quarter of 2007. Credit card loans increased to $1.7 billion, an increase of 36% over the second quarter of 2007, due to the Bancorp s continued success in cross-selling credit cards to its existing retail customer base. Automobile loans decreased by approximately $2.4 billion, or 22%, due to $2.7 billion in automobile loan securitizations during the first quarter of 2008.

Average total commercial loans and leases increased $8.7 billion, or 21%, compared to the second quarter of 2007. The increase in average total commercial loans and leases was primarily driven by growth in commercial loans and commercial mortgage loans, which increased 32% and 14%, respectively, over the second quarter of 2007. The growth in commercial mortgage loans included the impact of acquisitions since the second quarter of 2007 of $881 million. Growth in overall average commercial loans and leases was realized in the majority of the Bancorp s markets, including 22% growth in Florida primarily from commercial and industrial loans, 19% growth in Nashville and 17% growth in Chicago.

Average total consumer loans and leases decreased $540 million, or two percent, compared to the second quarter of 2007 as a result of the growth in residential mortgage loans of $1.0 billion, or 10%, and credit card balances of $454 million, or 36%, offset by $2.1 billion, or 20%, decrease in automobile loans. Acquisitions since the second quarter of 2007 impacted the change in residential mortgage loans and home equity loans by $1.6 billion and $506 million, respectively. The Bancorp experienced a decrease in average consumer loans and leases in a majority of its markets, although growth of 13% occurred in Nashville.

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TABLE 17: Components of Average Total Loans and Leases (includes held for sale)

	June 30, 2008		December 31, 2007		June 30, 2007	
($ in millions)	**Balance**	**% of Total**	**Balance**	**% of Total**	**Balance**	**% of Total**
Commercial:						
Commercial loans	**$ 28,557**	**33**	$ 24,526	30	$ 21,587	28
Commercial mortgage loans	**12,590**	**15**	11,588	14	11,030	14
Commercial construction loans	**5,700**	**7**	5,544	7	5,595	7
Commercial leases	**3,748**	**4**	3,692	4	3,678	5
Subtotal commercial	**50,595**	**59**	45,350	55	41,890	54
Consumer:						
Residential mortgage loans	**11,244**	**13**	11,181	14	10,201	13
Home equity	**12,012**	**14**	11,843	15	11,886	15
Automobile loans	**8,439**	**10**	11,158	13	10,552	14
Credit card	**1,703**	**2**	1,461	2	1,248	2
Other consumer loans and leases	**1,219**	**2**	1,179	1	1,271	2
Subtotal consumer	**34,617**	**41**	36,822	45	35,158	46
Total average loans and leases	**$ 85,212**	**100**	$ 82,172	100	$ 77,048	100
Total portfolio loans and leases (excludes held for sale)	**$ 83,537**		$ 78,174		$ 75,205	

Investment Securities

The Bancorp uses investment securities as a means of managing interest rate risk, providing liquidity support and providing collateral for pledging purposes. As of June 30, 2008, total investment securities were $13.3 billion compared to $11.5 billion at June 30, 2007. Securities are classified as available-for-sale when, in management s judgment, they may be sold in response to, or in anticipation of, changes in market conditions. The Bancorp s management has evaluated the securities in an unrealized loss position in the available-for-sale portfolio on the basis of both the duration of the decline in value of the security and the severity of that decline, and maintains the intent and ability to hold these securities to the earlier of the recovery of the losses or maturity.

The net unrealized loss on the available-for-sale securities portfolio was $217 million at June 30, 2008 compared to an unrealized loss of $144 million at December 31, 2007 and a $355 million unrealized loss at June 30, 2007. The change in unrealized loss on available-for-sale securities from December 31, 2007 primarily resulted from the widening in interest rate spread in mortgage products within the Bancorp s portfolio, which impacted the net unrealized loss by approximately $54 million. In addition, the overall increase in interest rates since 2007 impacted the growth in the unrealized loss at June 30, 2008 by approximately $36 million. The change in unrealized loss on available-for-sale securities from June 30, 2007 primarily resulted from the general decline in interest rates, which was partially offset by the widening in mortgage spreads due to financial market volatility.

At June 30, 2008, the Bancorp s investment portfolio primarily consisted of AAA-rated agency mortgage-backed securities. The investment portfolio includes $38 million of Federal Home Loan Mortgage Corporation preferred stock on which the Bancorp realized an other than temporary impairment charge of $13 million in the second quarter of 2008. The Bancorp owns Federal National Mortgage Association trust preferred securities totaling $30 million with an unrealized loss of $2 million at June 30, 2008. The Bancorp did not hold asset-backed securities backed by subprime loans in its securities portfolio at June 30, 2008. There were no material securities below investment grade as of June 30, 2008.

TABLE 18: Components of Investment Securities (amortized cost basis)

($ in millions)	June 30, 2008	December 31, 2007	June 30, 2007
Available-for-sale and other:			
U.S. Treasury and Government agencies	**$ 226**	3	103
U.S. Government sponsored agencies	**244**	160	260
Obligations of states and political subdivisions	**383**	490	552
Agency mortgage-backed securities	**9,831**	8,738	9,232
Other bonds, notes and debentures	**1,181**	385	150
Other securities	**1,070**	1,045	1,073
Total available-for-sale and other securities	**$ 12,935**	10,821	11,370
Held-to-maturity:			
Obligations of states and political subdivisions	**$ 356**	351	344
Other bonds, notes and debentures	**5**	4	2
Total held-to-maturity	**$ 361**	355	346

On an amortized cost basis, at the end of the second quarter of 2008, available-for-sale securities increased $1.6 billion since June 30, 2007. At June 30, 2008 and 2007, available-for-sale securities were 13% of interest-earning assets. Although the securities portfolio has grown in comparison to prior periods, the Bancorp has no specific plans to increase the portfolio beyond current levels.

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

The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 6.6 years at June 30, 2008 compared to 5.5 years at June 30, 2007. At June 30, 2008, the fixed-rate securities within the available-for-sale securities portfolio had a weighted-average yield of 5.03% compared to 5.33% at June 30, 2007.

Information presented in Table 19 is on a weighted-average life basis, anticipating future prepayments. Yield information is presented on an FTE basis and is computed using historical cost balances. Maturity and yield calculations for the total available-for-sale portfolio exclude equity securities that have no stated yield or maturity.

TABLE 19: Characteristics of Available-for-Sale and Other Securities

As of June 30, 2008 ($ in millions)	Amortized Cost	Fair Value	Weighted-Average Life (in years)	Weighted-Average Yield
U.S. Treasury and Government agencies:				
Average life of one year or less	$	$		%
Average life 1 5 years	223	221	2.0	3.49
Average life 5 10 years	1	1	9.7	3.42
Average life greater than 10 years	2	2	11.7	3.29
Total	226	224	2.1	3.49
U.S. Government sponsored agencies:				
Average life of one year or less	60	61	0.7	4.84
Average life 1 5 years	184	183	2.3	3.59
Average life 5 10 years				
Average life greater than 10 years				
Total	244	244	1.9	3.89
Obligations of states and political subdivisions *(a)*:				
Average life of one year or less	190	191	0.3	7.40
Average life 1 5 years	131	134	2.3	7.11*(b)*
Average life 5 10 years	61	61	7.5	7.76*(b)*
Average life greater than 10 years	1	1	12.6	3.68
Total	383	387	2.1	7.29
Agency mortgage-backed securities:				
Average life of one year or less	1	1	0.5	7.35
Average life 1 5 years	1,649	1,645	3.6	4.83
Average life 5 10 years	7,990	7,812	8.0	5.03
Average life greater than 10 years	191	192	10.3	5.60
Total	9,831	9,650	7.3	5.01
Other bonds, notes and debentures *(c)*:				
Average life of one year or less	617	616	0.1	3.12
Average life 1 5 years	295	294	3.6	6.92
Average life 5 10 years	72	69	6.1	7.04
Average life greater than 10 years	197	182	16.7	7.46
Total	1,181	1,161	4.1	5.03
Other securities *(d)*	1,070	1,052		

Total available-for-sale and other securities	$ 12,935	$ 12,718	6.6	5.03%

(a) Taxable-equivalent yield adjustments included in the above table are 2.48%, 2.38%, 2.61%, 1.24% and 2.44% for securities with an average life of one year or less, 1-5 years, 5-10 years, greater than 10 years and in total, respectively.

(b) Weighted-average yield excludes $1 million and $52 million of securities with an average life of 1-5 years and 5-10 years, respectively, related to qualified zone academy bonds whose yields are realized through income tax credits. The weighted-average effective yield of these instruments is 6.77%.

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

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

Deposits

Deposit balances represent an important source of funding and revenue growth opportunity. The Bancorp is continuing to focus on core deposit growth in its retail and commercial franchises by expanding its retail franchise through acquisitions and its de novo strategy and enhancing its product offerings. At June 30, 2008, core deposits represented 57% of the Bancorp s asset funding base, compared to 61% at June 30, 2007.

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

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

TABLE 20: Deposits

	June 30, 2008		December 31, 2007		June 30, 2007	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Demand	**$ 16,259**	**21**	$ 14,404	19	$ 13,524	20
Interest checking	**14,002**	**18**	15,254	20	14,672	21
Savings	**16,602**	**21**	15,635	21	15,036	22
Money market	**6,806**	**9**	6,521	9	6,334	9
Foreign office	**2,174**	**3**	2,572	4	1,744	2
Transaction deposits	**55,843**	**72**	54,386	73	51,310	74
Other time	**9,839**	**13**	11,440	15	10,428	15
Core deposits	**65,682**	**85**	65,826	88	61,738	89
Certificates - $100,000 and over	**10,870**	**14**	6,738	9	6,204	9
Other foreign office	**864**	**1**	2,881	3	1,251	2
Total deposits	**$ 77,416**	**100**	$ 75,445	100	$ 69,193	100

Transaction deposits grew nine percent compared to June 30, 2007, primarily attributable to organic growth and acquisitions since the second quarter of 2007, which increased transaction deposits by $2.5 billion and $2.0 billion, respectively. Additionally, the Bancorp continued to realize a mix shift as customers migrated from lower yielding interest checking into higher yielding savings and money market accounts. Demand deposits grew 20% from the second quarter of 2007, driven by a 26% year-over-year increase in commercial demand deposits. Overall, core deposits grew six percent compared to the second quarter of 2007 as other time deposits decreased six percent from the second quarter of 2007 due to unusually high competitor pricing in many of the Bancorp s markets during the second quarter of 2008. Excluding deposits added from acquisitions since June 30, 2007, core deposits grew two percent from the second quarter 2007 due to 45 additional banking centers compared to the second quarter of 2007.

Certificates $100,000 and over increased compared to the same quarter last year due to actions taken by the Bancorp as a liquidity management strategy, which involved extending the average duration of wholesale borrowings to reduce exposure to high levels of market volatility.

TABLE 21: Average Deposits

	June 30, 2008		December 31, 2007		June 30, 2007	
($ in millions)	Balance	% of Total	Balance	% of Total	Balance	% of Total
Demand	**$ 14,023**	**19**	$ 13,345	19	$ 13,370	19
Interest checking	**14,396**	**19**	14,394	20	15,061	22
Savings	**16,583**	**22**	15,616	22	14,620	21
Money market	**6,592**	**9**	6,363	9	6,244	9
Foreign office	**2,169**	**3**	2,249	3	1,637	2
Transaction deposits	**53,763**	**72**	51,967	73	50,932	73
Other time	**9,517**	**13**	11,011	15	10,780	16
Core deposits	**63,280**	**85**	62,978	88	61,712	89

Certificates - $100,000 and over	**8,143**	**11**	6,613	9	6,511	10
Other foreign office	**2,948**	**4**	2,464	3	732	1
Total deposits	**$ 74,371**	**100**	$ 72,055	100	$ 68,955	100

On an average basis, core deposits increased three percent primarily due to acquisition activity and de novo growth. The Bancorp continues to realize a mix shift as customers continued to migrate from checking to higher yielding accounts compared to the second quarter of 2007. Excluding acquisitions, average core deposits decreased two percent. The Bancorp realized double-digit growth, compared to the same quarter last year, in savings, foreign deposit and certificates $100,000 and over offset by a decrease in interest checking deposits and other time deposits. The Bancorp experienced average core deposit growth of 17% in the Nashville market.

Borrowings

Total short-term borrowings were $8.1 billion at June 30, 2008 compared to $7.2 billion at June 30, 2007. As of June 30, 2008 and June 30, 2007, total borrowings as a percentage of interest-bearing liabilities were 27% and 26%, respectively, as the Bancorp continues to explore additional alternatives regarding the level and cost of various other sources of funding.

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

TABLE 22: Borrowings

($ in millions)	June 30, 2008	December 31, 2007	June 30, 2007
Federal funds purchased	**$ 2,447**	4,427	$ 3,824
Other short-term borrowings	**5,628**	4,747	3,331
Long-term debt	**15,046**	12,857	11,957
Total borrowings	**$ 23,121**	22,031	$ 19,112

Federal funds purchased decreased compared to December 31, 2007 and June 30, 2007 due to the Bancorp s decreased usage of these types of borrowings to fund loan growth primarily due to an increased usage of long-term debt and the issuance of convertible preferred stock during the second quarter of 2008. Long-term debt increased since December 31, 2007 due to debt issuances during the first and second quarters of 2008. In April 2008, the Bancorp issued $750 million of 6.25% senior notes with a maturity date of May 1, 2013. The notes are not subject to redemption at the Bancorp s option at any time prior to maturity. Additionally, in May 2008, a deconsolidated trust issued $400 million of Tier 1-qualifying trust preferred securities and invested these proceeds in junior subordinated notes issued by the Bancorp. The notes mature on May 15, 2068 and bear a fixed rate of 8.875% until May 15, 2058. After May 15, 2058, the notes bear interest at a variable rate of three-month LIBOR plus 5.00%. The Bancorp has subsequently entered into hedges related to these notes.

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

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Quantitative and Qualitative Disclosures About Market Risk (Item 3)

RISK MANAGEMENT OVERVIEW

Managing risk is an essential component of successfully operating a financial services company. The Bancorp s risk management function is responsible for the identification, measurement, monitoring, control and reporting of risk and mitigation of those risks that are inconsistent with the Bancorp s risk profile. The Enterprise Risk Management division (ERM), led by the Bancorp s Chief Risk Officer, ensures consistency in the Bancorp s approach to managing and monitoring risk within the structure of the Bancorp s affiliate operating model. In addition, the Internal Audit division provides an independent assessment of the Bancorp s internal control structure and related systems and processes. The risks faced by the Bancorp include, but are not limited to, credit, market, liquidity, operational and regulatory compliance. ERM includes the following key functions:

Risk Policy - ensures consistency in the approach to risk management as the Bancorp s clearinghouse for credit, market and operational risk policies, procedures and guidelines;

Credit Risk Review - responsible for evaluating the sufficiency of underwriting, documentation and approval processes for consumer and commercial credits, counter-party credit risk, the accuracy of risk grades assigned to commercial credit exposure, and appropriate accounting for charge-offs, non-accrual status and specific reserves and reports directly to the Risk and Compliance Committee of the Board of Directors;

Consumer Credit Risk Management - responsible for credit risk management in consumer lending, including oversight of underwriting and credit administration processes as well as analytics and reporting functions;

Capital Markets Risk Management - responsible for establishing and monitoring proprietary trading limits, monitoring liquidity and interest rate risk and utilizing value at risk and earnings at risk models;

Compliance Risk Management - responsible for oversight of compliance with all banking regulations;

Operational Risk Management - responsible for enterprise operational risk programs such as risk self-assessments, new products review, the key risk indicator program, and root cause analysis and corrective action plans relating to identified operational losses;

Bank Protection - responsible for fraud prevention and detection, and investigations and recovery;

Insurance Risk Management - responsible for all property, casualty and liability insurance policies including the claims administration process for the Bancorp;

Investment Advisors Risk Management - responsible for trust compliance, fiduciary risk, trading risk and credit risk in the Investment Advisors line of business; and

Risk Strategies and Reporting - responsible for quantitative analytics and Board of Directors and senior management reporting on credit, market and operational risk metrics.

Designated risk managers have been assigned to all business lines. Affiliate risk management is handled by regional risk managers who are responsible for multiple affiliates and who report to ERM.

Risk management oversight and governance is provided by the Risk and Compliance Committee of the Board of Directors and through multiple management committees whose membership includes a broad cross-section of line of business, affiliate and support representatives. The Risk and Compliance Committee of the Board of Directors consists of five outside directors and has the responsibility for the oversight of credit, market, operational, regulatory compliance and strategic risk management activities for the Bancorp, as well as for the Bancorp s overall aggregate risk profile. The Risk and Compliance Committee of the Board of Directors has approved the formation of key management governance committees that are responsible for evaluating risks and controls. These committees include the Market Risk Committee, the Corporate Credit Committee, the Credit Policy Committee, the Operational Risk Committee and the Executive Asset Liability Committee. There are also new products and initiatives processes applicable to every line of business to ensure an appropriate standard readiness assessment is performed before launching a new product or initiative. Significant risk policies approved by the management governance committees are also reviewed and approved by the Risk and Compliance Committee of the Board of Directors.

Quantitative and Qualitative Disclosures About Market Risk (continued)

CREDIT RISK MANAGEMENT

The objective of the Bancorp s credit risk management strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. The Bancorp s credit risk management strategy is based on three core principles: conservatism, diversification and monitoring. The Bancorp believes that effective credit risk management begins with conservative lending practices. These practices include conservative exposure and counterparty limits and conservative underwriting, documentation and collection standards. The Bancorp s credit risk management strategy also emphasizes diversification on a geographic, industry and customer level as well as regular credit examinations and monthly management reviews of large credit exposures and credits experiencing deterioration of credit quality. Lending officers with the authority to extend credit are delegated specific authority amounts, the utilization of which is closely monitored. Lending activities are largely centralized, while ERM manages the policy and the authority delegation process directly. The Credit Risk Review function, within ERM, provides objective assessments of the quality of underwriting and documentation, the accuracy of risk grades and the charge-off and reserve analysis process. The Bancorp s credit review process and overall assessment of required allowances is based on quarterly assessments of the probable estimated losses inherent in the loan and lease portfolio. The Bancorp uses these assessments to promptly identify potential problem loans or leases within the portfolio, maintain an adequate reserve and take any necessary charge-offs. In addition to the individual review of larger commercial loans that exhibit probable or observed credit weaknesses, the commercial credit review process includes the use of two risk grading systems. The risk grading system currently utilized for reserve analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system that provides for thirteen probabilities of default grade categories and an additional six grade categories for estimating actual losses given an event of default. The probability of default and loss given default evaluations are not separated in the ten-grade risk rating system. The Bancorp is in the process of completing significant validation and testing of the dual risk rating system prior to its implementation for reserve analysis purposes. The dual risk rating system is expected to be consistent with Basel II expectations and allows for more precision in the analysis of commercial credit risk. Scoring systems, various analytical tools and delinquency monitoring are used to assess the credit risk in the Bancorp s homogenous consumer loan portfolios.

Commercial Portfolio

The Bancorp s credit risk management strategy includes minimizing concentrations of risk through diversification. Table 24 provides breakouts of the total commercial loan and lease portfolio, including held for sale, by major industry classification (as defined by the North American Industry Classification System), by loan size and by state, illustrating the diversity and granularity of the Bancorp s portfolio. Table 23 provides further information on the location of commercial real estate and construction industry loans and leases.

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

As of June 30 ($ in millions)	2008	2007
Michigan	**$ 4,725**	4,544
Ohio	**4,385**	4,068
Florida	**2,816**	2,675
Illinois	**1,414**	1,345
Indiana	**1,284**	1,294
Kentucky	**869**	804
Tennessee	**517**	430
North Carolina	**456**	12
All other states	**1,590**	992
Total	**$ 18,056**	16,164

At June 30, 2008, homebuilder exposure represents the most significant weakness in the commercial portfolio. As of June 30, 2008, the Bancorp had homebuilder exposure of $4.9 billion and outstanding loans of $3.3 billion with $547 million in nonaccrual loans. As of June 30, 2008, approximately 50% of the outstanding loans to homebuilders are located in the states of Michigan and Florida and represent approximately 75% of the nonaccrual loans. As of December 31, 2007, the Bancorp had homebuilder exposure of $4.4 billion, outstanding loans of $2.9 billion with $176 million in nonaccrual loans. The increase in homebuilder balances during 2008 is primarily attributable to the acquisition of First Charter.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 24: Commercial Loan and Lease Portfolio *(a)*

As of June 30 ($ in millions)	2008 Outstanding	2008 Exposure	2008 Nonaccrual	2007 Outstanding	2007 Exposure	2007 Nonaccrual
By industry:						
Real estate	**$ 12,796**	**15,733**	**458**	10,811	13,519	68
Manufacturing	**7,507**	**14,485**	**72**	5,653	12,357	25
Construction	**5,260**	**8,089**	**486**	5,353	8,720	98
Retail trade	**4,194**	**7,417**	**74**	3,834	6,785	20
Wholesale trade	**3,200**	**5,537**	**26**	1,972	3,741	18
Financial services and insurance	**2,917**	**7,371**	**28**	1,565	5,201	7
Healthcare	**2,916**	**4,713**	**18**	1,940	3,505	10
Transportation and warehousing	**2,876**	**3,300**	**27**	2,297	2,660	3
Business services	**2,865**	**5,111**	**52**	1,941	3,804	19
Accommodation and food	**1,186**	**1,628**	**63**	849	1,249	11
Other services	**1,174**	**1,662**	**17**	1,002	1,487	11
Individuals	**1,149**	**1,493**	**33**	1,205	1,574	12
Other	**934**	**1,590**	**82**	793	1,358	5
Communication and information	**928**	**1,583**	**21**	622	1,189	1
Public administration	**859**	**1,069**	**1**	723	941	
Mining	**741**	**1,292**	**3**	396	753	5
Entertainment and recreation	**680**	**941**	**18**	604	856	5
Agribusiness	**656**	**829**	**7**	575	759	1
Utilities	**473**	**1,297**		306	1,114	
Total	**$ 53,311**	**85,140**	**1,486**	42,441	71,572	319
By loan size:						
Less than $200,000	**3%**	**2**	**5**	4	3	12
$200,000 to $1 million	**13**	**10**	**16**	16	11	28
$1 million to $5 million	**27**	**23**	**40**	30	25	43
$5 million to $10 million	**24**	**22**	**18**	17	15	17
$10 million to $25 million	**13**	**14**	**18**	22	25	
Greater than $25 million	**20**	**29**	**3**	11	21	
Total	**100%**	**100**	**100**	100	100	100
By state:						
Ohio	**25%**	**29**	**13**	25	28	27
Michigan	**19**	**17**	**30**	21	19	28
Florida	**10**	**8**	**29**	10	9	11
Illinois	**8**	**9**	**6**	10	10	8
Indiana	**7**	**7**	**7**	9	9	15
Kentucky	**5**	**5**	**5**	6	6	5
North Carolina	**4**	**3**	**1**			
Tennessee	**3**	**2**	**1**	3	3	3
All other states	**19**	**20**	**8**	16	16	3
Total	**100%**	**100**	**100**	100	100	100

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

Residential Mortgage Portfolio

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

Certain mortgage products have contractual features that may increase the risk of loss to the Bancorp in the event of a decline in housing prices. These types of mortgage products offered by the Bancorp include loans with high loan-to-value (LTV) ratios, multiple loans on the same collateral that when combined result in a high LTV (80/20) and interest-only loans. Table 25 shows the Bancorp s originations of these products for the three and six months ended June 30, 2008 and 2007. The Bancorp does not originate mortgage loans that permit customers to defer principal payments or make payments that are less than the accruing interest.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 25: Residential Mortgage Originations

	2008		2007	
($ in millions)	**Amount**	**Percent of total**	**Amount**	**Percent of total**
For the three months ended June 30:				
Greater than 80% LTV with no mortgage insurance	**$ 4**	**%**	$ 90	3%
Interest-only	**189**	**6**	563	18
Greater than 80% LTV and interest-only	**2**		4	
80/20 loans	**4**		64	2
80/20 loans and interest-only			6	
For the six months ended June 30:				
Greater than 80% LTV with no mortgage insurance	**11**		198	3
Interest-only	**622**	**9**	1,058	18
Greater than 80% LTV and interest-only	**2**		19	
80/20 loans	**35**	**1**	111	2
80/20 loans and interest-only			44	1

Table 26 provides the amount of these loans as a percent of the residential mortgage loans in the Bancorp s portfolio and the delinquency rates of these loan products as of June 30, 2008 and 2007. The balance of the mortgage portfolio not included in Table 26 is characterized by mortgage loans with less than 80% LTV, with approximately two-thirds representing fixed rate mortgages. Reset of rates on adjustable rate mortgages are not expected to have a material impact on credit cost as two-thirds of adjustable rate mortgages have an LTV less than 80%. Geographically, the Bancorp s residential mortgage portfolio is dominated by three states with Florida, Ohio and Michigan representing 31%, 23% and 15% of the portfolio, respectively.

TABLE 26: Residential Mortgage Outstandings

	2008			2007		
As of June 30 ($ in millions)	**Amount**	**Percent of total**	**Delinquency Ratio**	**Amount**	**Percent of total**	**Delinquency Ratio**
Greater than 80% LTV with no mortgage insurance	**$ 2,196**	**22%**	**9.25%**	$ 1,903	23%	5.57%
Interest-only	**1,724**	**17**	**2.02**	1,257	15	.65
Greater than 80% LTV and interest-only	**444**	**4**	**7.25**	525	6	1.95
80/20 loans						

The Bancorp previously originated certain non-conforming residential mortgage loans known as Alt-A loans. Borrower qualifications were comparable to other conforming residential mortgage products. As of June 30, 2008, the Bancorp held $123 million of Alt-A mortgage loans in its portfolio with approximately $10 million in nonaccrual.

The Bancorp previously sold certain mortgage products in the secondary market with recourse. The outstanding balances and delinquency rates for those loans sold with recourse as of June 30, 2008 and 2007 were $1.4 billion and 4.81%, and $1.6 billion and 1.78%, respectively. Charge-offs on recourse loans were not material for the three and six months ended June 30, 2008 and 2007.

Home Equity Portfolio

The home equity portfolio is characterized by 82% of outstanding balances within the Bancorp s Midwest footprint of Ohio, Michigan, Kentucky, Indiana and Illinois. The portfolio has an average FICO score of 733 as of June 30, 2008, comparable with 734 at June 30, 2007 and 736 at June 30, 2006. Further detail on location and origination LTV ratios is included in Table 27.

TABLE 27: Home Equity Outstandings

As of June 30 ($ in millions)	2008 LTV less than 80%	2008 LTV greater than 80%	2008 Delinquency Ratio	2007 LTV less than 80%	2007 LTV greater than 80%	2007 Delinquency Ratio
Ohio	**$ 1,874**	**2,016**	**1.40%**	$ 1,889	2,071	1.31%
Michigan	**1,387**	**1,289**	**1.95**	1,416	1,311	1.70
Indiana	**608**	**614**	**1.80**	645	658	1.55
Illinois	**710**	**557**	**1.67**	606	555	1.42
Kentucky	**503**	**573**	**1.49**	503	607	1.23
Florida	**619**	**291**	**2.92**	427	240	1.83
All other states	**470**	**910**	**2.56**	162	690	1.96
Total	**$ 6,171**	**6,250**	**1.84%**	$ 5,648	6,132	1.51%

Quantitative and Qualitative Disclosures About Market Risk (continued)

Analysis of Nonperforming Assets

A summary of nonperforming assets is included in Table 28. Nonperforming assets include: (i) nonaccrual loans and leases for which ultimate collectibility of the full amount of the principal and/or interest is uncertain; (ii) restructured consumer loans which have not yet met the requirements to be classified as a performing asset; and (iii) other assets, including other real estate owned and repossessed equipment. Loans are placed on nonaccrual status when the principal or interest is past due 90 days or more (unless the loan is both well secured and in process of collection) and payment of the full principal and/or interest under the contractual terms of the loan is not expected. Additionally, loans are placed on nonaccrual status upon deterioration of the financial condition of the borrower or upon the restructuring of the loan. When a loan is placed on nonaccrual status, the accrual of interest, amortization of loan premium, accretion of loan discount and amortization or accretion of deferred net loan fees or costs are discontinued and previously accrued but unpaid interest is reversed. Commercial loans on nonaccrual status are reviewed for impairment at least quarterly. If the principal or a portion of principal is deemed a loss, the loss amount is charged off to the allowance for loan and lease losses.

TABLE 28: Summary of Nonperforming Assets and Delinquent Loans

($ in millions)	June 30, 2008	December 31, 2007	June 30, 2007
Nonperforming loans and leases:			
Commercial loans	**$ 407**	175	137
Commercial mortgage loans	**524**	243	113
Commercial construction loans	**537**	249	65
Commercial leases	**18**	5	4
Residential mortgage loans	**142**	92	38
Home equity	**35**	45	44
Automobile loans	**7**	3	3
Credit card			
Other consumer loans and leases		1	
Restructured loans and leases:			
Residential mortgage loans	**187**	29	2
Home equity	**116**	46	
Credit card	**15**	5	
Total nonaccrual loans and leases	**1,988**	893	406
Repossessed personal property	**22**	21	17
Other real estate owned	**188**	150	105
Total nonperforming assets	**$ 2,198**	$ 1,064	528
Commercial loans	**$ 52**	44	44
Commercial mortgage loans	**149**	73	37
Commercial construction loans	**53**	67	33
Commercial leases	**1**	4	1
Residential mortgage loans *(a)*	**228**	186	98
Home equity	**76**	72	61
Automobile loans	**12**	13	10
Credit card	**33**	31	18
Other consumer loans and leases	**1**	1	
Total 90 days past due loans and leases	**$ 605**	491	302

Nonperforming assets as a percent of total loans, leases and other assets, including other real estate owned	**2.56%**	1.32	.70
Allowance for loan and lease losses as a percent of total nonperforming assets	**72**	88	152

(a) Information for all periods presented excludes advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. As of June 30, 2008, December 31, 2007 and June 30, 2007, these advances were $27 million, $25 million and $16 million, respectively.

Total nonperforming assets were $2.2 billion at June 30, 2008, compared to $1.1 billion at December 31, 2007 and $528 million at June 30, 2007. Nonperforming assets as a percentage of total loans, leases and other assets, including other real estate owned, as of June 30, 2008 was 2.56% compared to 1.32% as of December 31, 2007 and .70% as of June 30, 2007. The composition of nonaccrual credits continues to shift as more than 82% of nonaccrual credits were secured by real estate as of June 30, 2008 compared to approximately 70% as of June 30, 2007.

Commercial nonaccrual credits increased from $319 million as of June 30, 2007 and $1.1 billion at March 31, 2008 to $1.5 billion as of June 30, 2008. The majority of the increase was driven by the real estate and construction industries in the states of Florida and Michigan. These states combined to account for 63% of the sequential growth in commercial nonaccrual credits and represent 59% of total commercial nonaccrual credits as of June 30, 2008. As shown in Table 24, the real estate and construction industries

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Quantitative and Qualitative Disclosures About Market Risk (continued)

contributed to approximately two-thirds of the increase in nonaccrual credits. Of the $944 million of real estate and construction nonaccrual credits, $547 million is related to homebuilders or developers. Due to the deterioration in real estate prices in Michigan and Florida, the Bancorp has charged-off $91 million against the loans that make up homebuilder and developer nonaccrual credits and has provided an additional $44 million in reserves held against these loans. For additional information on credit reserves, see the discussion on allowance for credit losses later in this section.

Consumer nonaccrual credits increased from $87 million as of June 30, 2007 and $221 million as of December 31, 2007 to $502 million as of June 30, 2008. The increase in consumer nonaccrual credits is primarily attributable to declines in the housing markets in the Michigan and Florida affiliates and the restructuring of certain high risk loans. Michigan and Florida accounted for 64% of the increase in nonaccrual credits in the residential real estate portfolio and, as of June 30, 2008, represented 59% of total residential real estate nonaccrual credits. The Bancorp has devoted significant attention to loss mitigation activities and has proactively restructured certain real estate loans. Consumer restructured loans are recorded as nonaccrual credits until there is a sustained period of payment by the borrower, generally a minimum of six months of payments in accordance with the loans modified terms. Consumer restructured loans contributed approximately $318 million to nonaccrual loans as of June 30, 2008 compared to $2 million in restructured loans as of June 30, 2007.

Analysis of Net Charge-offs

Net charge-offs as a percent of average loans and leases were 166 bp for the second quarter of 2008, compared to 89 bp for the fourth quarter of 2007 and 55 bp for the second quarter of 2007. Table 29 provides a summary of credit loss experience and net charge-offs as a percentage of average loans and leases outstanding by loan category.

The ratio of commercial loan net charge-offs to average commercial loans outstanding increased to 141 bp in the second quarter of 2008 compared to 66 bp in the fourth quarter of 2007 and 44 bp in the second quarter of 2007, as homebuilders, developers and related suppliers were affected by the downturn in the real estate markets. Charge-offs for the second quarter of 2008 included $34 million, or 19%, related to homebuilders and developers. Excluding a $23 million customer fraud-related charge-off, approximately 58% of charge-offs greater than $500,000 involved loans in the construction or real estate industries.

The ratio of consumer loan net charge-offs to average consumer loans outstanding increased to 204 bp in the second quarter of 2008 compared to 118 bp in the fourth quarter of 2007 and 68 bp in the second quarter of 2007. Residential mortgage charge-offs increased to $63 million in the second quarter of 2008 compared to $18 million in the fourth quarter of 2007 and $9 million in the second quarter of 2007, reflecting increased foreclosure rates in the Bancorp s key lending markets coupled with an increase in severity of loss on mortgage loans. Florida, Michigan and Ohio continue to rank among the top states in total mortgage foreclosures. These foreclosures not only added to the volume of charge-offs, but also hampered the Bancorp s ability to recover the value of the homes collateralizing the mortgages as they contributed to declining home prices. Florida affiliates continue to experience the most stress and accounted for over half of the residential mortgage charge-offs in the second quarter. While Michigan residential mortgage charge-offs remain elevated, there was no increase in charge-offs in the second quarter of 2008 compared to the first quarter of 2008. Home equity charge-offs increased to $54 million and 183 bp of average loans, primarily due to increases in the Michigan and Florida affiliates and among those products originated through a broker channel. Brokered home equity loans represented 50% of home equity charge-offs during 2007 despite representing only 20% of home equity lines and loans as of June 30, 2008. Management responded to the performance of the brokered home equity portfolio by reducing originations in 2007 of this product by 64% compared to 2006 and, at the end of 2007, eliminating this channel of origination. Management is also limiting further withdrawals against lines of credits for those products and geographies displaying the most stress. The ratio of automobile loan net charge-offs to average automobile loans was 121 bp for the second quarter of 2008, an increase of 63 bp compared to the second quarter 2007 displaying an expected increase due to a shift in the portfolio to a higher percentage of used automobiles and an increase in loss severity due to increased market depreciation of used automobiles. The net charge-off ratio on credit card balances increased compared to the same quarter last year as the Bancorp increased originations of card balances throughout the past year. Although the credit characteristics of the credit card portfolio have been maintained during the origination of new cards, including the weighted average FICO and average line outstanding, the Bancorp does expect the charge-off ratio to increase as the portfolio matures. The Bancorp employs a risk-adjusted pricing methodology to help ensure adequate compensation is received for those products that have higher credit costs.

During the second quarter of 2008, the Bancorp changed its charge-off policy for the credit card portfolio to conform with regulatory guidelines and industry standards and to increase the likelihood of recoveries and customer affirmation of the Bancorp s bankruptcy proceedings. This policy reduced credit card charge offs by $4 million as the Bancorp converted from charging off a credit card balance at receipt of bankruptcy notice or 180 days past due, whichever comes first, to 60 days after bankruptcy notice or 180 days past due, whichever comes first. This change did not affect the amount or timing of a charge on the Bancorp s provision for loan and lease expense as the Bancorp provides for probable credit card losses upon receipt of a bankruptcy notice.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

TABLE 29: Summary of Credit Loss Experience

($ in millions)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Losses charged off:				
Commercial loans	**$ (109)**	(29)	**$ (148)**	(48)
Commercial mortgage loans	**(22)**	(16)	**(55)**	(23)
Commercial construction loans	**(49)**	(7)	**(121)**	(13)
Commercial leases				(1)
Residential mortgage loans	**(63)**	(9)	**(98)**	(16)
Home equity	**(57)**	(22)	**(99)**	(41)
Automobile loans	**(35)**	(24)	**(79)**	(49)
Credit card	**(23)**	(12)	**(44)**	(23)
Other consumer loans and leases	**(7)**	(5)	**(14)**	(9)
Total losses	**(365)**	(124)	**(658)**	(223)
Recoveries of losses previously charged off:				
Commercial loans	**2**	5	**5**	9
Commercial mortgage loans	**1**		**2**	1
Commercial construction loans				
Commercial leases				1
Residential mortgage loans				
Home equity	**3**	2	**4**	5
Automobile loans	**9**	9	**18**	18
Credit card	**2**	2	**4**	5
Other consumer loans and leases	**4**	4	**5**	11
Total recoveries	**21**	22	**38**	50
Net losses charged off:				
Commercial loans	**(107)**	(24)	**(143)**	(39)
Commercial mortgage loans	**(21)**	(16)	**(53)**	(22)
Commercial construction loans	**(49)**	(7)	**(121)**	(13)
Commercial leases				
Residential mortgage loans	**(63)**	(9)	**(98)**	(16)
Home equity	**(54)**	(20)	**(95)**	(36)
Automobile loans	**(26)**	(15)	**(61)**	(31)
Credit card	**(21)**	(10)	**(40)**	(18)
Other consumer loans and leases	**(3)**	(1)	**(9)**	2
Total net losses charged off	**$ (344)**	(102)	**(620)**	(173)
Net charge-offs as a percent of average loans and leases (excluding held for sale):				
Commercial loans	**1.52%**	.44	**1.07%**	.37
Commercial mortgage loans	**.66**	.56	**.87**	.41
Commercial construction loans	**3.46**	.48	**4.32**	.42
Commercial leases	**(.01)**	.02	**(.01)**	.02
Total commercial loans	**1.41**	.44	**1.32**	.36

Residential mortgage loans	**2.57**	.43	**1.93**	.38
Home equity	**1.83**	.66	**1.61**	.61
Automobile loans	**1.21**	.58	**1.37**	.59
Credit card	**4.93**	3.28	**4.86**	3.28
Other consumer loans and leases	**1.31**	.78	**1.54**	(.26)
Total consumer loans	**2.04**	.68	**1.80**	.61
Total net losses charged off	**1.66%**	.55	**1.52%**	.47

Allowance for Credit Losses

The allowance for credit losses is comprised of the allowance for loan and lease losses and the reserve for unfunded commitments. The allowance for loan and lease losses provides coverage for probable and estimable losses in the loan and lease portfolio. The Bancorp evaluates the allowance each quarter to determine its adequacy to cover inherent losses. Several factors are taken into consideration in the determination of the overall allowance for loan and lease losses, including an unallocated component. These factors include, but are not limited to, the overall risk profile of the loan and lease portfolios, net charge-off experience, the extent of impaired loans and leases, the level of nonaccrual loans and leases, the level of 90 days past due loans and leases and the overall percentage level of the allowance for loan and lease losses. The Bancorp also considers overall asset quality trends, credit administration and portfolio management practices, risk identification practices, credit policy and underwriting practices, overall portfolio growth, portfolio concentrations and current national and local economic conditions that might impact the portfolio. The Bancorp continues to monitor recent developments in the credit markets.

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Quantitative and Qualitative Disclosures About Market Risk (continued)

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

TABLE 30: Changes in Allowance for Credit Losses

($ in millions)	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Allowance for loan and lease losses:				
Beginning balance	**$ 1,205**	784	**$ 937**	771
Net losses charged off	**(344)**	(102)	**(620)**	(173)
Provision for loan and lease losses	**719**	121	**1,263**	205
Ending balance	**$ 1,580**	803	**$ 1,580**	803
Reserve for unfunded commitments:				
Beginning balance	**$ 103**			