

June 17, 2009

Research Update:

Fifth Third Bancorp Ratings Lowered To 'BBB/A-2' From 'A-/A-2'; Outlook Negative

Primary Credit Analyst:

Daniel E Teclaw, New York (1) 212-438-8716; daniel_teclaw@standardandpoors.com

Secondary Credit Analyst:

Barbara Duberstein, New York (1) 212-438-5656; barbara_duberstein@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Research

Ratings List

Research Update:

Fifth Third Bancorp Ratings Lowered To 'BBB/A-2' From 'A-/A-2'; Outlook Negative

Overview

- As part of our review of U.S. banks, we think the bank will underperform peers based on our recent stress testing, even as capital boosting measures somewhat mitigate these stresses.
- We have lowered our counterparty credit rating on Fifth Third Bancorp to 'BBB' from 'A-'. The outlook is negative.
- We believe that the bank's future operating performance remains vulnerable to developments in real estate markets, particularly in Florida.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its counterparty credit rating on Fifth Third Bancorp to 'BBB/A-2' from 'A-/A-2'. At the same time, we also lowered the ratings on both Fifth Third Bank Ohio and Fifth Third Bank Michigan to 'BBB+/A-2' from 'A/A-1'. The ratings have been removed from CreditWatch where they were placed on May 4, 2009, with negative implications. The outlook is negative.

Rationale

The rating downgrade reflects our assessment that Fifth Third will be underperforming compared with peers, based on our recent stress testing. In particular, we anticipate that credit losses will likely continue to rise and constrain both profits and capital generation. As part of our portfolio review, we closely examined the relative credit risk, earnings power, and capital position and flexibility among Fifth Third and its regional peers.

In particular, we view Fifth Third's credit risk profile as weaker than similarly rated peers. The company expanded its footprint into Florida and the Southeast through higher-risk loan products when markets were peaking, and its Michigan portfolio also continues to show weakness. While in runoff mode, brokered home equity loans in each of these states continue to underperform significantly, with charge-offs of 14.2% and 6.4% in Florida and Michigan, respectively. We think Fifth Third's commercial portfolio also carries higher levels of risk or loss content than peers. Its commercial mortgage and commercial real estate mortgage books totaled 35% of the commercial loan portfolio book and have shown high charge-offs, leaving the bank with high levels of nonperforming loans with which to cope in a difficult environment.

Fifth Third's capital position, while generally starting off on a weak basis, has been strengthened by recent capital boosting actions. On the positive side, management is bolstering its capital position substantially on a tangible basis and the company continues to demonstrate its ability to

access financial markets. We expect the bank's tangible common equity-to-tangible assets ratio to increase from a weak 4.2% earlier this year to a pro forma level of around 6.5% in June 2009 through the successful execution of its capital plan. Steps in this plan include: the sale of a majority stake in its commercial processing business (\$1.2 billion); an incremental raising of capital in the secondary market (\$1 billion); and conversion of more than half of its \$1.1 billion convertible preferred stock (an estimated \$600 million) raised in the difficult capital markets of the summer of 2008. That said, we believe increasing losses over time may eat into this new capital.

The ratings continue to be supported by the bank's fundamental earnings power--among the strongest for a regional bank. Indeed, its pretax, preprovision margin has consistently been in the mid-40% range. Still, while we expect this margin to drop to the 35%-40% range, we also expect much of the volatility to be eliminated regarding bank-owned life insurance charges and goodwill impairments brought about by tumultuous capital markets. Expense management has been, and continues to be, a source of earnings strength for Fifth Third. We expect these financial fundamentals to be challenged by higher credit costs over the next two years.

Outlook

The outlook is negative. In our view, if operating weakness continues beyond our current expectations, we could lower the ratings further. On the other hand, improved performance could lead us to revert the outlook back to stable; currently, we believe a ratings upgrade as less likely.

Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009.
- "Stress Testing U.S. Financial Institutions," April 29, 2009.
- "What Stress Tests Reveal about U.S. Banks' Capital Needs," May 1, 2009.
- "Ratings On 23 Financial Institutions Placed On CreditWatch Negative," May 4, 2009.

Ratings List

Downgraded; CreditWatch/Outlook Action;	Ratings Affirmed	
	To	From
Fifth Third Bancorp Counterparty Credit Rating	BBB/Negative/A-2	A-/Watch Neg/A-2
Downgraded; CreditWatch/Outlook Action	To	From
Fifth Third Bank (The) Fifth Third Bank Michigan Counterparty Credit Rating	BBB+/Negative/A-2	A/Watch Neg/A-1
Fifth Third Bank Michigan Certificate Of Deposit		

Research Update: Fifth Third Bancorp Ratings Lowered To 'BBB/A-2' From 'A-/A-2'; Outlook Negative

Local Currency	BBB+/A-2	A/Watch Neg/A-1
Fifth Third Bancorp		
Senior Unsecured	BBB	A-/Watch Neg
Subordinated	BBB-	BBB+/Watch Neg
Preferred Stock	BB	BBB-/Watch Neg
Fifth Third Bank (The)		
Senior Unsecured	BBB+	A/Watch Neg
Subordinated	BBB	A-/Watch Neg
Fifth Third Capital Trust IV		
Junior Subordinated	BB	BBB-/Watch Neg
Fifth Third Capital Trust V		
Junior Subordinated	BB	BBB-/Watch Neg
Fifth Third Capital Trust VI		
Preferred Stock	BB	BBB-/Watch Neg
Fifth Third Capital Trust VII		
Preferred Stock	BB	BBB-/Watch Neg
Old Kent Capital Trust I		
Preferred Stock	BB	BBB/Watch Neg
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Fifth Third Bancorp		
Commercial Paper	A-2	A-2/Watch Neg

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.