FIFTH THIRD BANCORP
Form 10-K/A
May 11, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

Commission file number 0-8076

FIFTH THIRD BANCORP

(Exact name of Registrant as specified in its charter)

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

38 Fountain Square Plaza

Cincinnati, Ohio 45263

(Address of principal executive offices) (Zip Code)

(513) 534-5300

Registrant s telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

Common Stock Without Par Value

Name of exchange on which registered:

The NASDAQ Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes: x No: ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes: ¨ No: x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer: x Accelerated filer: ¨ Non-accelerated filer: ¨

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

There were 556,314,458 shares of the Bancorp s Common Stock, without par value, outstanding as of January 31, 2007. The Aggregate Market Value of the Voting Stock held by non-affiliates of the Bancorp was $17,609,835,370 as of June 30, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

This report incorporates into a single document the requirements of the Securities and Exchange Commission (SEC) with respect to annual reports on Form 10-K and annual reports to shareholders. The Bancorp s Proxy Statement for the 2007 Annual Meeting of Shareholders is incorporated by reference into Part III of this report. Only those sections of this 2006 Annual Report to Shareholders that are specified in this Cross Reference Index constitute part of the Registrant s Form 10-K for the year ended December 31, 2006. No other information contained in this 2006 Annual Report to Shareholders shall be deemed to constitute any part of this Form 10-K nor shall any such information be incorporated into the Form 10-K and shall not be deemed filed as part of the Registrant s Form 10-K.

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EXPLANATORY NOTE

The Bancorp is filing this Amendment to its Annual Report on Form 10-K for the year ended December 31, 2006, to reflect the restatement of the Bancorp s Consolidated Statements of Cash Flows, as discussed in Note 29 of the Notes to Consolidated Financial Statements contained in Part II, Item 8: Financial Statements and Supplementary Data. Except for Items 8 and 9A of Part II, no other information in the Form 10-K is being amended by this Amendment. This Amendment continues to speak as of the date of the original filing of the Form 10-K and the Bancorp has not updated the disclosure in the Amendment to speak as of any later date.

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FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about Fifth Third Bancorp and/or the company as combined acquired entities within the meaning of 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, 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) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (3) changes in the interest rate environment reduce interest margins; (4) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (5) changes and trends in capital markets; (6) competitive pressures among depository institutions increase significantly; (7) effects of critical accounting policies and judgments; (8) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies; (9) 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; (10) ability to maintain favorable ratings from rating agencies; (11) fluctuation of Fifth Third s stock price; (12) ability to attract and retain key personnel; (13) ability to receive dividends from its subsidiaries; (14) potentially dilutive effect of future acquisitions on current shareholders ownership of Fifth Third; (15) difficulties in combining the operations of acquired entities; (16) ability to secure confidential information through the use of computer systems and telecommunications network; and (17) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. Fifth Third undertakes no obligation to release revisions to these forward-looking statements or reflect events or circumstances after the date of this report.

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

The Management of Fifth Third Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting of Fifth Third Bancorp and subsidiaries (the Bancorp) includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Bancorp; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bancorp are being made only in accordance with authorizations of management and directors of the Bancorp; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bancorp s assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

The Bancorp s Management assessed the effectiveness of the Bancorp s internal control over financial reporting as of December 31, 2006 as required by Section 404 of the Sarbanes Oxley Act of 2002. Management s assessment is based on the criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and was designed to provide reasonable assurance that the Bancorp maintained effective internal control over financial reporting as of December 31, 2006. Based on this assessment, Management believes that the Bancorp maintained effective internal control over financial reporting as of December 31, 2006.

The Bancorp s independent registered public accounting firm, that audited the Bancorp s consolidated financial statements included in this annual report, has issued an attestation report on our internal control over financial reporting as of December 31, 2006 and Bancorp Management s assessment of the internal control over financial reporting. This report appears on the following page.

George A. Schaefer, Jr.	Christopher G. Marshall
Chairman and Chief Executive Officer	Executive Vice President and Chief Financial Officer
February 15, 2007	February 15, 2007

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REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management s assessment, included in the accompanying Management s assessment as to the Effectiveness of Internal Control over Financial Reporting, that Fifth Third Bancorp and subsidiaries (the Bancorp) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bancorp s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Bancorp s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management s assessment that the Bancorp maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Bancorp and our report dated February 15, 2007 (May 11, 2007 as to the effects of the restatement discussed in Note 29 to the consolidated financial statements) expressed an unqualified opinion on those financial statements.

Cincinnati, Ohio

February 15, 2007

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

We have audited the accompanying consolidated balance sheets of Fifth Third Bancorp and subsidiaries (the Bancorp) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Bancorp s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fifth Third Bancorp and subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 29, the accompanying consolidated statements of cash flows have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Bancorp s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Bancorp s internal control over financial reporting and an unqualified opinion on the effectiveness of the Bancorp s internal control over financial reporting.

Cincinnati, Ohio

February 15, 2007

(May 11, 2007 as to the effects of the restatement discussed in Note 29)

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CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 ($ in millions, except per share data)	2006	2005	2004
Interest Income			
Interest and fees on loans and leases	**$ 5,000**	3,918	2,847
Interest on securities:			
Taxable	**904**	1,032	1,217
Exempt from income taxes	**30**	39	45
Total interest on securities	**934**	1,071	1,262
Interest on other short-term investments	**21**	6	5
Total interest income	**5,955**	4,995	4,114
Interest Expense			
Interest on deposits:			
Interest checking	**398**	314	174
Savings	**363**	176	58
Money market	**261**	140	39
Other time	**433**	263	162
Certificates - $100,000 and over	**278**	129	48
Foreign office	**177**	126	58
Total interest on deposits	**1,910**	1,148	539
Interest on federal funds purchased	**208**	138	77
Interest on short-term bank notes		6	15
Interest on other short-term borrowings	**194**	138	78
Interest on long-term debt	**770**	600	393
Total interest expense	**3,082**	2,030	1,102
Net Interest Income	**2,873**	2,965	3,012
Provision for loan and lease losses	**343**	330	268
Net Interest Income After Provision for Loan and Lease Losses	**2,530**	2,635	2,744
Noninterest Income			
Electronic payment processing revenue	**857**	748	631
Service charges on deposits	**517**	522	515
Mortgage banking net revenue	**155**	174	178
Investment advisory revenue	**367**	358	363
Corporate banking revenue	**318**	299	228
Other noninterest income	**300**	360	587
Securities gains (losses), net	**(364)**	39	(37)
Securities gains, net - non-qualifying hedges on mortgage servicing rights	**3**		
Total noninterest income	**2,153**	2,500	2,465
Noninterest Expense			
Salaries, wages and incentives	**1,174**	1,133	1,018
Employee benefits	**292**	283	261
Equipment expense	**122**	105	84
Net occupancy expense	**245**	221	185
Other noninterest expense	**1,223**	1,185	1,424
Total noninterest expense	**3,056**	2,927	2,972

Income Before Income Taxes and Cumulative Effect	**1,627**	2,208	2,237
Applicable income taxes	**443**	659	712
Income Before Cumulative Effect	**1,184**	1,549	1,525
Cumulative effect of change in accounting principle, net of tax	**4**		
Net Income	**$ 1,188**	1,549	1,525
Net Income Available to Common Shareholders *(a)*	**$ 1,188**	1,548	1,524
Earnings per share from continuing operations	**$ 2.13**	2.79	2.72
Earnings per share from cumulative effect of change in accounting principle, net	**0.01**		
Earnings Per Share	**$ 2.14**	2.79	2.72
Earnings per diluted share from continuing operations	**$ 2.12**	2.77	2.68
Earnings per diluted share from cumulative effect of change in accounting principle, net	**0.01**		
Earnings Per Diluted Share	**$ 2.13**	2.77	2.68

(a) Dividends on preferred stock are $.740 million for all years presented.

See Notes to Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS

As of December 31 ($ in millions, except share data)	2006	2005
Assets		
Cash and due from banks	$ **2,737**	3,078
Available-for-sale and other securities (amortized cost: 2006-**$ 11,236** and 2005-$22,533)	**11,053**	21,924
Held-to-maturity securities (fair value: 2006-**$356** and 2005-$389)	**356**	389
Trading securities	**187**	117
Other short-term investments	**809**	158
Loans held for sale	**1,150**	1,304
Portfolio loans and leases:		
Commercial loans	**20,725**	19,174
Construction loans	**6,847**	7,037
Commercial mortgage loans	**10,405**	9,188
Commercial lease financing	**4,984**	4,852
Residential mortgage loans	**8,151**	7,152
Consumer loans	**23,311**	22,084
Consumer lease financing	**1,176**	1,751
Unearned income	**(1,246)**	(1,313)
Total portfolio loans and leases	**74,353**	69,925
Allowance for loan and lease losses	**(771)**	(744)
Total portfolio loans and leases, net	**73,582**	69,181
Bank premises and equipment	**1,940**	1,726
Operating lease equipment	**202**	143
Goodwill	**2,193**	2,169
Intangible assets	**166**	208
Servicing rights	**524**	441
Other assets	**5,770**	4,387
Total Assets	**$ 100,669**	105,225
Liabilities		
Deposits:		
Demand	$ **14,331**	14,609
Interest checking	**15,993**	18,282
Savings	**13,181**	11,276
Money market	**6,584**	6,129
Other time	**10,987**	9,313
Certificates - $100,000 and over	**6,628**	4,343
Foreign office	**1,676**	3,482
Total deposits	**69,380**	67,434
Federal funds purchased	**1,421**	5,323
Other short-term borrowings	**2,796**	4,246
Accrued taxes, interest and expenses	**2,283**	2,142
Other liabilities	**2,209**	1,407
Long-term debt	**12,558**	15,227
Total Liabilities	**90,647**	95,779
Shareholders Equity		
Common stock *(a)*	**1,295**	1,295

Preferred stock *(b)*	**9**	9
Capital surplus	**1,812**	1,827
Retained earnings	**8,317**	8,007
Accumulated other comprehensive income	**(179)**	(413)
Treasury stock	**(1,232)**	(1,279)
Total Shareholders Equity	**10,022**	9,446
Total Liabilities and Shareholders Equity	**$ 100,669**	105,225

(a) *Stated value $ 2.22 per share; authorized 1,300,000,000; outstanding at* ***2006 - 556,252,674 (excludes 27,174,430 treasury shares)*** *and 2005 - 555,623,430 (excludes 27,803,674 treasury shares).*

(b) *490,750 shares of undesignated no par value preferred stock are authorized of which none had been issued; 7,250 shares of 8.0% cumulative Series D convertible (at $23.5399 per share) perpetual preferred stock with a stated value of $1,000 per share were authorized, issued and outstanding; 2,000 shares of 8.0% cumulative Series E perpetual preferred stock with a stated value of $1,000 per share were authorized, issued and outstanding.*

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

($ in millions, except per share data)	Common Stock	Preferred Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2003	$ 1,295	9	1,964	6,481	(120)	(962)	8,667
Net income				1,525			1,525
Other comprehensive income					(49)		(49)
Comprehensive income							1,476
Cash dividends declared:							
Common stock at $1.31 per share				(735)			(735)
Preferred stock				(1)			(1)
Shares acquired for treasury						(987)	(987)
Stock-based compensation expense			87				87
Restricted stock grants			(33)			33	
Stock-based awards exercised, including treasury shares issued			(133)			222	89
Change in corporate tax benefit related to stock-based compensation			11				11
Shares issued in business combinations			36			281	317
Other			2	(1)		(1)	
Balance at December 31, 2004	1,295	9	1,934	7,269	(169)	(1,414)	8,924
Net income				1,549			1,549
Other comprehensive income					(244)		(244)
Comprehensive income							1,305
Cash dividends declared:							
Common stock at $1.46 per share				(810)			(810)
Preferred stock				(1)			(1)
Shares acquired for treasury			97			(1,746)	(1,649)
Stock-based compensation expense			65				65
Restricted stock grants			(43)			43	
Stock-based awards exercised, including treasury shares issued			(121)			206	85
Loans repaid related to the exercise of stock-based awards, net			11				11
Change in corporate tax benefit related to stock-based compensation			6				6
Shares issued in business combinations	11		85			1,413	1,509
Retirement of shares	(11)		(208)			219	
Other			1				1
Balance at December 31, 2005	1,295	9	1,827	8,007	(413)	(1,279)	9,446
Net income				**1,188**			**1,188**
Other comprehensive income					**288**		**288**
Comprehensive income							**1,368**
Cumulative effect of change in accounting for pension and other postretirement obligations					**(54)**		**(54)**
Cash dividends declared:							
Common stock at **$1.58** per share				**(880)**			**(880)**
Preferred stock				**(1)**			**(1)**

Shares acquired for treasury						**(82)**	**(82)**
Stock-based compensation expense			**76**	**1**			**77**
Impact of cumulative effect of change in accounting principle			**(6)**				**(6)**
Restricted stock grants			**(45)**			**45**	
Stock-based awards exercised, including treasury shares issued			**(49)**			**84**	**35**
Loans repaid related to the exercise of stock-based awards, net			**8**				**8**
Change in corporate tax benefit related to stock-based compensation			**(1)**				**(1)**
Other			**2**	**2**			**4**
Balance at December 31, 2006	**$ 1,295**	**9**	**1,812**	**8,317**	**(179)**	**(1,232)**	**10,022**

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (RESTATED, SEE NOTE 29)

For the years ended December 31 ($ in millions)	2006 (Restated)	2005 (Restated)	2004 (Restated)
Operating Activities			
Net Income	**$ 1,188**	1,549	1,525
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	**343**	330	268
Cumulative effect of change in accounting principle, net of tax	**(4)**		
Depreciation, amortization and accretion	**399**	405	459
Stock-based compensation expense	**77**	65	87
Benefit for deferred income taxes	**(21)**	(16)	(13)
Realized securities gains	**(44)**	(46)	(58)
Realized securities gains - non-qualifying hedges on mortgage servicing rights	**(3)**		
Realized securities losses	**408**	7	95
Loans originated for sale, net of repayments	**(8,671)**	(8,683)	(5,253)
Proceeds from sales of loans held for sale	**8,812**	7,881	6,684
Net gains on sales of loans	**(131)**	(162)	(112)
(Increase) decrease in trading securities	**(70)**	(40)	259
Net gain on divestitures			(91)
Increase in other assets	**(1,440)**	(922)	(861)
(Decrease) increase in accrued taxes, interest and expenses	**(31)**	42	(35)
Increase (decrease) in other liabilities	**642**	355	(73)
Net Cash Provided by Operating Activities	**1,454**	765	2,881
Investing Activities			
Proceeds from sales of available-for-sale securities	**12,568**	5,912	11,331
Proceeds from calls, paydowns and maturities of available-for-sale securities	**3,033**	5,271	6,234
Purchases of available-for-sale securities	**(4,676)**	(7,785)	(13,425)
Proceeds from calls, paydowns and maturities of held-to-maturity securities	**38**	48	42
Purchases of held-to-maturity securities	**(5)**	(181)	(148)
(Increase) decrease in other short-term investments	**(651)**	402	(264)
Increase in loans and leases	**(5,145)**	(8,297)	(7,284)
Proceeds from sales of loans	**540**	1,816	140
(Increase) decrease in operating lease equipment	**(77)**	124	357
Purchases of bank premises and equipment	**(443)**	(437)	(391)
Proceeds from disposal of bank premises and equipment	**60**	56	23
Cash received on divestitures			233
Net cash (paid) acquired in business combination	**(5)**	242	29
Net Cash Provided by (Used In) Investing Activities	**5,237**	(2,829)	(3,123)
Financing Activities			
Increase in core deposits	**1,467**	3,874	3,327
Increase (decrease) in certificates - $100,000 and over, including foreign office	**479**	1,491	(2,962)
(Decrease) increase in federal funds purchased	**(3,902)**	130	(2,238)
(Decrease) increase in short-term bank notes		(775)	275
Decrease in other short-term borrowings	**(1,462)**	(687)	(1,210)
Proceeds from issuance of long-term debt	**3,731**	4,665	11,128
Repayment of long-term debt	**(6,441)**	(3,782)	(6,283)
Payment of cash dividends	**(867)**	(794)	(704)
Exercise of stock-based awards, net	**43**	96	89
Purchases of treasury stock	**(82)**	(1,649)	(987)
Other	**2**	12	9

Net Cash (Used In) Provided by Financing Activities	**(7,032)**	2,581	444
(Decrease) Increase in Cash and Due from Banks	**(341)**	517	202
Cash and Due from Banks at Beginning of Year	**3,078**	2,561	2,359
Cash and Due from Banks at End of Year	**$ 2,737**	3,078	2,561
Cash Payments			
Interest	**$ 3,051**	1,952	1,096
Income taxes	**489**	676	708
Supplemental Cash Flow Information			
Transfer from loans held for sale to portfolio loans	**138**	16	
Business Acquisitions:			
Fair value of tangible assets acquired (noncash)	**6**	5,149	921
Goodwill and identifiable intangible assets acquired	**17**	1,297	282
Liabilities assumed and note issued	**(18)**	(5,179)	(916)
Stock options		(63)	(36)
Common stock issued		(1,446)	(281)
Securitizations:			
Capitalized servicing rights			9
Residual interest			21
Available-for-sale securities retained			21

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations

Fifth Third Bancorp (Bancorp), an Ohio corporation, conducts its principal lending, deposit gathering, transaction processing and service advisory activities through its banking and non-banking subsidiaries from banking centers located throughout Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Pennsylvania and Missouri.

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Bancorp and its majority-owned subsidiaries. Other entities, including certain joint ventures, in which there is greater than 20% ownership, but upon which the Bancorp does not possess, nor can it exert, significant influence or control, are accounted for by the equity method and not consolidated; those in which there is less than 20% ownership are generally carried at the lower of cost or fair value. Intercompany transactions and balances have been eliminated. Certain prior period data has been reclassified to conform to current period presentation. Such reclassifications have no effect on previously reported consolidated financial positions or results of operation.

Use of Estimates

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

Securities

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

Loans and Leases

Interest income on loans and leases is based on the principal balance outstanding computed using the effective interest method. The accrual of interest income for commercial loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due. Such loans are also placed on nonaccrual status when the principal or interest is past due ninety days or more, unless the loan is well secured and in the process of collection. Consumer loans and revolving lines of credit for equity lines that have principal and interest payments that have become past due one hundred and twenty days and residential mortgage loans and credit cards that have principal and interest payments that have become past due one hundred and eighty days are charged off to the allowance for loan and lease losses. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is charged against income and the loan is accounted for on the cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan is returned to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement or when the loan is both well secured and in the process of collection.

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

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

Conforming residential mortgage loans are typically classified as held for sale upon origination based upon management s intent to sell all the production of these loans. Residential mortgage loans held for sale are valued at the lower of aggregate cost or fair value. Additionally, the carrying value of loans held for sale designated as the hedged item in a fair value hedge transaction are adjusted for changes in their fair value over the term of the hedging relationship. Fair value is based on the contract price at which the mortgage loans will be sold. The Bancorp generally has commitments to sell residential mortgage loans held for sale in the secondary market. Gains or losses on sales are recognized in mortgage banking net revenue upon delivery.

Impaired loans and leases are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate 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.

Other Real Estate Owned

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

Allowance for Loan and Lease Losses

The Bancorp maintains an allowance to absorb probable loan and lease losses inherent in the portfolio. The allowance is maintained at a level the Bancorp considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectibility and historical loss experience of loans and leases. Credit losses are charged and recoveries are credited to the allowance. Provisions for loan and lease losses are based on the Bancorp s review of the historical credit loss experience and such factors that, in management s judgment, deserve consideration under existing economic conditions in estimating probable credit losses. In determining the appropriate level of the allowance, the Bancorp estimates losses using a range derived from base and conservative estimates.

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Larger commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, allowances are allocated to individual loans based on management s estimate of the borrower s ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Bancorp. The review of individual loans includes those loans that are impaired as provided in Statement of Financial Accounting Standards (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 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 other commercial loans not subject to specific allowance allocations. The loss rates are derived from a migration analysis, which computes the net charge-off experience sustained on loans according to their internal risk grade. The risk grading system utilized for allowance analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system that provides for thirteen probability of default grade categories and an additional six grade categories measuring loss factors given an event of default. The probability of default and loss given default analyses 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 implementation for allowance analysis purposes. The dual risk rating system is consistent with Basel II expectations and allows for more precision in the analysis of commercial credit risk.

Homogenous loans and leases, such as consumer installment, residential mortgage and automobile leases 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 for one year. 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, reflect the impact of any current conditions on loss recognition. Factors that management considers in the analysis include the effects of the national and local economies, trends in the nature and volume of loans (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 possible credit impairment. Reduction to the carrying value of the acquired loans as a result of credit impairment is recorded as an adjustment to goodwill. The Bancorp does not carry over the acquired company s allowance for loan and lease losses nor does the Bancorp add to its existing allowance for the acquired loans as part of purchase accounting.

The Bancorp s primary market areas for lending are Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Pennsylvania and Missouri. When evaluating the adequacy of allowances, consideration is given to this regional geographic concentration 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 aspect to its overall approach in the determination of allowance for loan and lease losses. 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 for loan and lease losses.

Reserve for Unfunded Commitments

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

Loan Sales and Securitizations

When the Bancorp sells loans through either securitizations or individual loan sales in accordance with its investment policies, it may retain one or more subordinated tranches, servicing rights, interest-only strips, credit recourse, other residual interests and in some cases, a cash reserve account, all of which are considered retained interests in the securitized or sold loans. Gain or loss on sale or securitization of the loans depends in part on the previous carrying amount of the financial assets sold or securitized, allocated between the assets sold and the retained interests based on their relative fair value at the date of sale or securitization. To obtain fair values, quoted market prices are used, if available. If quotes are not available for retained interests, the Bancorp calculates fair value based on the present value of future expected cash flows using both management s best estimates and third-party data sources for the key assumptions, including credit losses, prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Gain or loss on sale or securitization of loans is reported as a component of noninterest income in the Consolidated Statements of Income. Retained interests from securitized or sold loans, excluding servicing rights, are carried at fair value. Adjustments to fair value for retained interests classified as available-for-sale securities are included in accumulated other comprehensive income or in noninterest income in the Consolidated Statements of Income if the fair value has declined below the carrying amount and such decline has been determined to be other-than-temporary. Adjustments to fair value for retained interests classified as trading securities are recorded within noninterest income in the Consolidated Statements of Income.

Servicing rights resulting from residential mortgage, home equity line of credit and automotive loan sales are amortized in proportion to and over the period of estimated net servicing revenues and are reported as a component of mortgage banking net revenue and other noninterest income, respectively, in the Consolidated Statements of Income. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the prepayment speed of the underlying loans, the weighted-average life of the loans, the discount rate 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 this risk and adjusts its valuation allowance as necessary to adequately

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reserve for any probable impairment in the portfolio. For purposes of measuring impairment, the mortgage servicing rights are stratified based on the financial asset type and interest rates. In addition, the Bancorp obtains an independent third-party valuation of the mortgage servicing portfolio on a quarterly basis. 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.

Bank Premises and Equipment

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

Derivative Financial Instruments

The Bancorp accounts for its derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. This Statement requires recognition of all derivatives as either assets or liabilities in the balance sheet and requires measurement of those instruments at fair value through adjustments to accumulated other comprehensive income and/or current earnings, as appropriate. On the date the Bancorp enters into a derivative contract, the Bancorp designates the derivative instrument as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period net income. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to net income in the same period(s) that the hedged transaction impacts net income. For free-standing derivative instruments, changes in fair values are reported in current period net income.

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

Taxes

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

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

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Consolidated Balance Sheets. The Bancorp evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period s income tax expense and can be significant to the operating results of the Bancorp. As described in greater detail in Note 13, the Internal Revenue Service is currently challenging the Bancorp s tax treatment of certain leasing transactions. For additional information, see Note 21.

Earnings Per Share

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

Other

Securities and other property held by Fifth Third Investment Advisors, a division of the Bancorp s banking subsidiaries, in a fiduciary or agency capacity are not included in the Consolidated Balance Sheets because such items are not assets of the subsidiaries. Investment advisory revenue in the Consolidated Statements of Income is recognized on the accrual basis. Investment advisory service revenues are recognized monthly based on a fee charged per transaction processed and/or a fee charged on the market value of ending account balances associated with individual contracts.

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

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

Advertising costs are generally expensed as incurred.

New Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, Accounting for Stock-Based

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Compensation-Transition and Disclosure an Amendment of FASB Statement No. 123. This Statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. Effective January 1, 2004, the Bancorp adopted the fair value recognition provisions of SFAS No. 123 using the retroactive restatement method described in SFAS No. 148. As a result, financial information for all periods prior to 2004 has been restated to reflect the compensation expense that would have been recognized had the fair value method of accounting been applied to all awards granted to employees after January 1, 1995. Stock-based compensation expense is included in salaries, wages and incentives expense in the Consolidated Statements of Income.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment. This Statement requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award with the cost to be recognized over the vesting period. This Statement was effective for financial statements as of the beginning of the first interim or annual reporting period of the first fiscal year beginning after September 15, 2005. On January 1, 2006, the Bancorp elected to adopt this Statement using the modified retrospective application. Adoption of this Statement had three impacts on the Bancorp s Consolidated Financial Statements: i) the recognition of a benefit for the cumulative effect of change in accounting principle of approximately $4 million (net of $2 million of tax) during the first quarter of 2006 due to the recognition of an estimate of forfeiture experience to be realized for all unvested stock-based awards outstanding; ii) the reclassification in the Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2004 of $6 million and $9 million, respectively, of net cash provided related to the excess corporate tax benefit received on stock-based compensation, previously recorded in the operating activities section, to the financing activities section and iii) the recognition of approximately $9 million of incremental salaries, wages and incentives expense in the second quarter of 2006 related to the issuance in April 2006 of stock-based awards to retirement-eligible employees. The adoption of this Statement did not have an impact on basic or diluted earnings per share. For further information on stock-based compensation see Note 18.

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (SOP) 03-3, Accounting for Certain Loans and Debt Securities Acquired in a Transfer. SOP 03-3 addresses the accounting for acquired loans that show evidence of having deteriorated in terms of credit quality since their origination (i.e. impaired loans) and for which a loss is deemed probable of occurring. SOP 03-3 requires acquired loans to be recorded at their fair value, defined as the present value of future cash flows including interest income, to be recognized over the life of the loan. SOP 03-3 prohibits the carryover of an allowance for loan loss on certain acquired loans within its scope considered in the future cash flows assessment. SOP 03-3 was effective for loans acquired in fiscal years beginning after December 15, 2004 and has not had a material effect on the Bancorp s Consolidated Financial Statements.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and cost method investments. In September 2004, the FASB issued Staff Position (FSP) No. EITF 03-01-1, Effective Date of Paragraphs 10-20 of EITF 03-01. This FSP delayed the effective date of the measurement and recognition guidance contained in paragraphs 10-20 of Issue 03-01. In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP nullifies certain requirements of Issue 03-1 and supersedes EITF Abstracts, Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. Based on the clarification provided in FSP FAS 115-1 and FAS 124-1, the amount of any other-than-temporary impairment that needs to be recognized will continue to be dependent on market conditions, the occurrence of certain events or changes in circumstances relative to an investee and an entity s intent and ability to hold the impaired investment at the time of the valuation. FSP FAS 115-1 and FAS 124-1 was effective for reporting periods beginning after December 15, 2005. Adoption of this FSP did not have a material effect on the Bancorp s Consolidated Financial Statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a Replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement was effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. The adoption of this Statement did not have a material effect on the Bancorp s Consolidated Financial Statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140. This Statement amends FASB Statements No. 133 and No. 140 as well as resolves issues addressed in Statement No. 133 Implementation Issue No. D1, Application of Statement No. 133 to Beneficial Interests in Securitized Financial Assets. Specifically, this Statement: i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are free-standing derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and v) amends Statement No. 140 to eliminate the prohibition on a qualifying SPE from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this Statement on January 1, 2007 did not have a material effect on the Bancorp s Consolidated Financial Statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140. This Statement amends FASB Statement No. 140 and requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this Statement permits the Bancorp to choose either to report servicing assets and liabilities at fair value or at amortized

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cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. This Statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. Upon adoption of this Statement on January 1, 2007, the Bancorp elected to continue to report all classes of servicing assets and liabilities at amortized cost subsequent to initial recognition at fair value.

In July 2006, the FASB issued FSP FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction. This FSP addresses the accounting for a change or projected change in the timing of lessor cash flows, but not the total net income, relating to income taxes generated by a leveraged lease transaction. This FSP amends SFAS No. 13, Accounting for Leases, and applies to all transactions classified as leveraged leases. The timing of cash flows relating to income taxes generated by a leveraged lease is an important assumption that affects the periodic income recognized by the lessor. Under this FSP, the projected timing of income tax cash flows generated by a leveraged lease transaction is required to be reviewed annually or more frequently if events or circumstances indicate that a change in timing has occurred or is projected to occur. If during the lease term the expected timing of the income tax cash flows generated by a leveraged lease is revised, the rate of return and the allocation of income would be recalculated from the inception of the lease. Upon adoption, the cumulative effect of the change in the net investment balance resulting from the recalculation will be recognized as an adjustment to the beginning balance of retained earnings. On an ongoing basis following the adoption, a change in the net investment balance resulting from a recalculation will be recognized as a gain or a loss in the period in which the assumption changed and included in income from continuing operations in the same line item used when leveraged lease income is recognized. These amounts would then be recognized back into income over the remaining terms of the affected leases. Additionally, upon adoption, only tax positions that meet the more-likely-than-not recognition threshold should be reflected in the financial statements and all recognized tax positions in a leveraged lease must be measured in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, issued in July 2006.

During May 2005, the Bancorp filed suit in the United States District Court for the Southern District of Ohio related to a dispute with the Internal Revenue Service concerning the timing of deductions associated with certain leveraged lease transactions in its 1997 tax return. The Internal Revenue Service has also proposed adjustments to the tax effects of certain leveraged lease transactions in subsequent tax return years. The proposed adjustments, including penalties, relate to the Bancorp s portfolio of lease-in lease-out transactions, service contract leases and qualified technology equipment leases with both domestic and foreign municipalities. The Bancorp is challenging the Internal Revenue Service s proposed treatment of all of these leasing transactions. The Bancorp s original net investment in these leases totaled approximately $900 million. The Bancorp continues to believe that its treatment of these leveraged leases was appropriate and in compliance with applicable tax law and regulations. While management cannot predict with certainty the result of the suit, given the tax treatment of these transactions has been challenged by the Internal Revenue Service, the Bancorp believes a resolution could involve a projected change in the timing of these leveraged lease cash flows.

This FSP is effective for fiscal years beginning after December 15, 2006. Upon adoption of this FSP on January 1, 2007, the Bancorp recognized an after-tax adjustment to beginning retained earnings of $96 million representing the cumulative effect of applying the provisions of this FSP.

In July 2006, the FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is a recognition process to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is assessed to determine the amount of benefit to be recognized in the financial statements. This Interpretation is effective for fiscal years beginning after December 15, 2006 and the cumulative effect of applying the provisions of this Interpretation will be recognized as an adjustment to the beginning balance of retained earnings. Adoption of this Interpretation on January 1, 2007 did not have a material effect on the Bancorp s Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Bancorp is currently in the process of evaluating the impact of adopting this Statement on its Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement amends the current accounting for pensions and postretirement benefits by requiring an entity to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This Statement also requires recognition, as a component of other comprehensive income (net of tax), of the actuarial gains and losses and the prior service costs and credits that arise during the period, but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87 and No. 106. Additionally, this Statement requires an entity to measure defined benefit plan assets and obligations as of the date of the employer s fiscal year-end statement of financial position. The Bancorp adopted this Statement on December 31, 2006. The effect of this Statement was to recognize $59 million, after-tax, of

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net actuarial losses and prior service cost as a reduction to accumulated other comprehensive income.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108, Financial Statements Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. This SAB provides guidance on the consideration of prior year misstatements in determining whether the current year s financial statements are materially misstated. In providing this guidance, the SEC staff references both the iron curtain and rollover approaches to quantifying a current year misstatement for purposes of determining materiality. The iron curtain approach focuses on how the current year s balance sheet would be affected in correcting misstatements without considering the year in which the misstatement originated.

The rollover approach focuses on the amount of the misstatements that originated in the current year s income statement. The SEC staff indicates that registrants should quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. This SAB is effective for fiscal years ending after November 15, 2006. Registrants may either restate their financials for any material misstatements arising from the application of this SAB or recognize a cumulative effect of applying SAB 108 within the current year opening balance in retained earnings. The adoption of this SAB did not have a material impact on the Bancorp s Consolidated Financial Statements.

2. SECURITIES

The following table provides a breakdown of the securities portfolio as of December 31:

	2006				2005			
($ in millions)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available-for-sale and other:								
U.S. Treasury and Government agencies	**$ 1,396**			**1,396**	506		(21)	485
U.S. Government sponsored agencies	**100**		**(5)**	**95**	2,034		(69)	1,965
Obligations of states and political subdivisions	**603**	**11**		**614**	657	19		676
Agency mortgage-backed securities	**7,999**	**10**	**(193)**	**7,816**	16,127	12	(502)	15,637
Other bonds, notes and debentures	**172**	**1**	**(2)**	**171**	2,119	3	(45)	2,077
Other securities*(a)*	**966**	**3**	**(8)**	**961**	1,090	1	(7)	1,084
Total	**$ 11,236**	**25**	**(208)**	**11,053**	22,533	35	(644)	21,924
Held-to-maturity:								
Obligations of states and political subdivisions	**$ 345**			**345**	378			378
Other debt securities	**11**			**11**	11			11
Total	**$ 356**			**356**	389			389

(a) Other securities consist of FHLB and Federal Reserve Bank restricted stock holdings of $527 million and $187 million at December 31, 2006, respectively, and $567 million and $185 million at December 31, 2005, respectively, that are carried at cost, FHLMC preferred stock holdings, certain mutual fund holdings and equity security holdings.

During the fourth quarter of 2006, the Bancorp evaluated its overall balance sheet composition and took certain actions with respect to its available-for-sale securities portfolio. The Bancorp s objective was to reduce the size of its available-for-sale securities portfolio to a size that is more consistent with its liquidity, collateral and interest rate risk management requirements, improve the asset/liability profile of the Bancorp and better position the Bancorp for an uncertain economic and interest rate environment. On November 20, 2006, the Bancorp s Board of

Directors approved the following actions with respect to the Bancorp s available-for-sale securities portfolio: (i) sales of $11.3 billion in available-for-sale securities and (ii) reinvestment of approximately $2.8 billion in available-for-sale securities that are more efficient when used as collateral. The sale of available-for-sale securities resulted in pretax losses of $398 million, or $255 million after-tax.

In determining the securities to sell, the Bancorp assessed (i) the relative value of the classes of securities in its available-for-sale portfolio; (ii) the Bancorp s customer acceptance of using certain classes of securities as forms of collateral; and (iii) the exposure in the portfolio to certain sectors with a changing credit risk profile. As a result of this assessment, the Bancorp sold the following available-for-sale securities in the fourth quarter of 2006:

($ in millions)	**Available-for-Sale Securities Sold**
15-year fixed-rate agency mortgage-backed securities	$ 4,074
Adjustable-rate agency mortgage-backed securities	1,724
U.S. Treasury notes	500
Available-for-sale securities sold due to relative performance	6,298
Agency collateralized mortgage obligations	2,135
Whole loan collateralized mortgage obligations	1,095
Whole loan adjustable rate mortgages	795
Available-for-sale securities sold due to collateral inefficiency	4,025
Agency debentures	798
Other security classes	194
Total	$ 11,315

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The Bancorp sold nearly all of its 15-year fixed-rate and adjustable-rate agency mortgage-backed securities and all of its U.S. Treasury notes to reduce its interest rate spread exposure in these asset classes. The Bancorp sold nearly all of its whole loan collateralized mortgage obligations and adjustable-rate mortgages and the majority of its agency collateralized mortgage obligations as these classes of securities are not widely accepted by the Bancorp s customers as forms of collateral. The Bancorp sold all of its FNMA agency debentures to reduce its credit exposure as a result of recent market events.

The Bancorp purchased approximately $1.4 billion in 30-year fixed-rate agency mortgage-backed securities and $1.4 billion of one-month and three-month U.S. Treasury bills for collateral purposes.

During the third quarter of 2006, the Bancorp sold $726 million of FHLMC callable debt, which represented nearly all of its position in these securities, in order to manage its liquidity and reduce its credit exposure as a result of recent market events.

The Bancorp believes it met its objective to reduce the size of its available-for-sale securities portfolio to a size that is more consistent with its liquidity, collateral and interest rate risk management requirements, improve the asset/liability profile of the Bancorp and better position the Bancorp for an uncertain economic and interest rate environment as a result of these actions. The Bancorp assesses its remaining securities relative to the same portfolio objective, its market outlook and its desired asset class allocations. Given this assessment, the Bancorp maintains its intent and ability to hold the remaining available-for-sale securities to the earlier of the recovery of the unrealized losses or maturity.

The amortized cost and approximate fair value of securities at December 31, 2006, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities when there exists a right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale & Other		Held-to-Maturity	
($ in millions)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Debt securities:				
Under 1 year	$ 1,431	1,433	2	2
1-5 years	257	259	21	21
5-10 years	588	589	302	302
Over 10 years	7,994	7,811	31	31
Other securities	966	961		
Total	$ 11,236	11,053	356	356

The following table provides the gross unrealized loss and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, as of December 31, 2006 and 2005:

	Less than 12 months		12 months or more		Total	
($ in millions)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
2006						
U.S. Treasury and Government agencies	**$ 747**		**1**		**748**	
U.S. Government sponsored agencies			**95**	**(5)**	**95**	**(5)**
Obligations of states and political subdivisions	**3**		**4**		**7**	
Agency mortgage-backed securities	**853**	**(3)**	**5,383**	**(190)**	**6,236**	**(193)**
Other bonds, notes and debentures	**10**		**119**	**(2)**	**129**	**(2)**
Other securities	**8**	**(2)**	**41**	**(6)**	**49**	**(8)**

Total	**$ 1,621**	**(5)**	**5,643**	**(203)**	**7,264**	**(208)**
2005						
U.S. Treasury and Government agencies	$		477	(21)	477	(21)
U.S. Government sponsored agencies	654	(21)	1,252	(48)	1,906	(69)
Agency mortgage-backed securities	7,523	(205)	7,646	(297)	15,169	(502)
Other bonds, notes and debentures	1,800	(39)	178	(6)	1,978	(45)
Other securities	64	(7)			64	(7)
Total	$ 10,041	(272)	9,553	(372)	19,594	(644)

At December 31, 2006, 95% of the unrealized losses in the available-for-sale securities portfolio were comprised of securities issued by the U.S. Treasury and Government agencies, U.S. Government sponsored agencies and states and political subdivisions as well as agency mortgage-backed securities. The Bancorp believes the price movements in these securities are dependent upon movements in market interest rates. At December 31, 2006, one percent of unrealized losses in the available-for-sale securities portfolio were represented by non-rated securities.

At December 31, 2006 and 2005, securities with a fair value of $7.7 billion and $16.6 billion, respectively, were pledged to secure borrowings, public deposits, trust funds and for other purposes as required or permitted by law.

Unrealized gains and losses on trading securities held at December 31, 2006 and 2005 were not material to the Consolidated Financial Statements.

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3. LOANS AND LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES

A summary of the total loans and leases as of December 31:

($ in millions)	2006 Gross	2006 Unearned Income	2006 Net	2005 Gross	2005 Unearned Income	2005 Net
Loans held for sale:						
Commercial loans	$			125		125
Commercial leases				3		3
Residential mortgage	**1,075**		**1,075**	1,144		1,144
Home equity	**1**		**1**			
Other consumer loans	**74**		**74**	32		32
Total loans held for sale	**$ 1,150**		**1,150**	1,304		1,304
Portfolio loans and leases *(a)*:						
Commercial:						
Commercial loans	**$ 20,725**		**20,725**	19,174		19,174
Commercial mortgage	**10,405**		**10,405**	9,188		9,188
Commercial construction	**6,168**		**6,168**	6,342		6,342
Commercial leases	**4,984**	**(1,143)**	**3,841**	4,852	(1,157)	3,695
Total commercial	**42,282**	**(1,143)**	**41,139**	39,556	(1,157)	38,399
Consumer:						
Residential mortgage	**8,151**		**8,151**	7,152		7,152
Residential construction	**679**		**679**	695		695
Credit card	**1,110**		**1,110**	866		866
Home equity	**12,364**		**12,364**	12,000		12,000
Other consumer loans	**9,837**		**9,837**	9,218		9,218
Consumer leases	**1,176**	**(103)**	**1,073**	1,751	(156)	1,595
Total consumer	**33,317**	**(103)**	**33,214**	31,682	(156)	31,526
Total portfolio loans and leases	**$ 75,599**	**(1,246)**	**74,353**	71,238	(1,313)	69,925

(a) At December 31, 2006 and 2005, deposit overdrafts of $43 million and $56 million, respectively, were included in portfolio loans.

The following is a summary of the gross investment in lease financing at December 31:

($ in millions)	2006	2005
Direct financing leases	**$ 3,640**	4,141
Leveraged leases	**2,520**	2,462
Total	**$ 6,160**	6,603

The components of the investment in lease financing at December 31:

($ in millions)	2006	2005
Rentals receivable, net of principal and interest on nonrecourse debt	**$ 4,479**	4,580
Estimated residual value of leased assets	**1,652**	1,983
Initial direct cost, net of amortization	**29**	40
Gross investment in lease financing	**6,160**	6,603
Unearned income	**(1,246)**	(1,313)
Net investment in lease financing	**$ 4,914**	5,290

At December 31, 2006, the minimum future lease payments receivable for each of the years 2007 through 2011 were $1.1 billion, $ .9 billion, $.8 billion, $.6 billion and $.4 billion, respectively.

Transactions in the allowance for loan and lease losses for the years ended December 31:

($ in millions)	2006	2005	2004
Balance at January 1	**$ 744**	713	697
Losses charged off	**(408)**	(373)	(321)
Recoveries of losses previously charged off	**92**	74	69
Net charge-offs	**(316)**	(299)	(252)
Provision for loan and lease losses	**343**	330	268
Balance at December 31	**$ 771**	744	713

As of December 31, 2006, impaired loans, under SFAS No. 114, with a valuation allowance totaled $193 million and impaired loans without a valuation allowance totaled $100 million. The total valuation allowance on the impaired loans at December 31, 2006 was $59 million. As of December 31, 2005, impaired loans with a valuation allowance totaled $147 million and impaired loans without a valuation allowance totaled $77 million. The total valuation allowance on the impaired loans at December 31, 2005 was $54 million.

Average impaired loans, net of valuation allowances, were $209 million in 2006, $169 million in 2005 and $140 million in 2004. Cash basis interest income recognized on those loans during each of the years was immaterial.

At December 31, 2006 and 2005, total nonperforming assets were $455 million and $361 million, respectively, and total loans and leases 90 days past due were $210 million and $155 million, respectively.

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4. BANK PREMISES AND EQUIPMENT

A summary of bank premises and equipment at December 31:

($ in millions)	Estimated Useful Life	2006	2005
Land and improvements		**$ 487**	373
Buildings	5 to 50 yrs.	**1,218**	1,125
Equipment	3 to 20 yrs.	**1,121**	960
Leasehold improvements	3 to 30 yrs.	**270**	204
Construction in progress		**137**	195
Accumulated depreciation and amortization		**(1,293)**	(1,131)
Total		**$ 1,940**	1,726

Depreciation and amortization expense related to bank premises and equipment was $187 million in 2006, $161 million in 2005 and $130 million in 2004.

Occupancy expense for cancelable and noncancelable leases was $78 million for 2006, $68 million for 2005 and $57 million for 2004. Occupancy expense has been reduced by rental income from leased premises of $12 million in 2006, 2005 and 2004.

The Bancorp s subsidiaries have entered into a number of noncancelable lease agreements with respect to bank premises and equipment. The minimum annual rental commitments under noncancelable lease agreements for land and buildings at December 31, 2006, exclusive of income taxes and other charges, are $72 million in 2007, $69 million in 2008, $64 million in 2009, $59 million in 2010, $53 million in 2011 and $377 million in 2012 and subsequent years.

5. GOODWILL

Changes in the net carrying amount of goodwill by reporting segment for the years ended December 31, 2006 and 2005 were as follows:

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	Total
Balance as of December 31, 2004	$ 373	254	58	103	191	979
Acquisition activity	498	544	124	24		1,190
Balance as of December 31, 2005	871	798	182	127	191	2,169
Acquisition activity		**(1)**			**14**	**13**
Reclassification				**11**		**11**
Balance as of December 31, 2006	**$ 871**	**797**	**182**	**138**	**205**	**2,193**

The Bancorp completed its most recent annual goodwill impairment test as of September 30, 2006 and determined that no impairment exists. In the table above, acquisition activity includes acquisitions in the respective period plus purchase accounting adjustments related to previous acquisitions. During 2006, the Bancorp acquired a credit card processing company. The acquisition resulted in the recognition of $14 million of goodwill and did not have a material impact on the financial results of the Bancorp. Additionally, during 2006, $11 million of goodwill was reclassified from other intangible assets.

6. INTANGIBLE ASSETS

Intangible assets consist of core deposits, servicing rights, customer lists and non-competition agreements. Intangibles, excluding servicing rights, are amortized on either a straight-line or an accelerated basis over their estimated useful lives and have an estimated weighted-average life at December 31, 2006 of 3.3 years.

The Bancorp reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. The details of the Bancorp s intangible assets are shown in the following table.

($ in millions)	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Carrying Amount
As of December 31, 2006:				
Mortgage servicing rights	**$ 1,210**	**(664)**	**(27)**	**519**
Other consumer and commercial servicing rights	**23**	**(18)**		**5**
Core deposits	**417**	**(276)**		**141**
Other	**43**	**(18)**		**25**
Total intangible assets	**$ 1,693**	**(976)**	**(27)**	**690**
As of December 31, 2005:				
Mortgage servicing rights	$ 1,075	(596)	(46)	433
Other consumer and commercial servicing rights	22	(14)		8
Core deposits	432	(244)		188
Other	29	(9)		20
Total intangible assets	$ 1,558	(863)	(46)	649

As of December 31, 2006, all of the Bancorp s intangible assets were being amortized. Amortization expense recognized on intangible assets, including servicing rights, for 2006 and 2005 was $116 million and $125 million, respectively. Estimated amortization expense, including servicing rights, is $105 million in 2007, $92 million in 2008, $78 million in 2009, $66 million in 2010 and $11 million in 2011.

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7. SERVICING RIGHTS

Changes in capitalized servicing rights for the years ended December 31:

($ in millions)	2006	2005
Balance at January 1	**$ 441**	352
Amount capitalized	**136**	135
Amortization	**(72)**	(79)
Servicing valuation recovery	**19**	33
Balance at December 31	**$ 524**	441

The estimated fair value of capitalized servicing rights was $532 million and $466 million at December 31, 2006 and 2005, respectively. The Bancorp serviced $28.7 billion and $25.7 billion of residential mortgage loans and $.5 billion and $.9 billion of consumer loans for other investors at December 31, 2006 and 2005, respectively.

Changes in the servicing rights valuation allowance for the years ended December 31:

($ in millions)	2006	2005
Balance at January 1	**$ (46)**	(79)
Servicing valuation recovery	**19**	33
Permanent impairment write-off		
Balance at December 31	**$ (27)**	(46)

The volatility of longer-term interest rates during 2006 and 2005 and the resulting impact of changing prepayment speeds led to the recovery of $19 million and $33 million, respectively, in temporary impairment on the mortgage servicing rights (MSR) portfolio. Temporary impairment or impairment recovery, effected through a change in the MSR valuation reserve, are captured as a component of mortgage banking net revenue in the Consolidated Statements of Income.

The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in value of the MSR portfolio. This strategy includes the purchase of free-standing derivatives (principal-only swaps, swaptions and interest rate swaps) and various available-for-sale securities (primarily principal-only strips). The interest income, mark-to-market adjustments and gain or loss from sale activities associated with these portfolios are expected to economically hedge a portion of the change in value of the MSR portfolio caused by fluctuating discount rates, earnings rates and prepayment speeds.

The Bancorp recognized a net loss of $9 million and $23 million in 2006 and 2005, respectively, related to changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio. See Note 8 in the Consolidated Financial Statements for further information on the derivatives, including the notional amount and fair value, used to hedge the MSR portfolio. A gain of $3 million was recognized in 2006 on the sale of securities used to hedge the MSR portfolio. As of December 31, 2006 and 2005, the available-for-sale securities portfolio included $176 million and $197 million, respectively, in instruments related to the non-qualified hedging strategy.

8. DERIVATIVES

The Bancorp maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce certain risks related to interest rate, prepayment and foreign currency volatility.

The Bancorp s interest rate risk management strategy involves modifying the repricing characteristics of certain financial instruments so that changes in interest rates do not adversely affect the net interest margin and cash flows. Derivative instruments that the Bancorp may use as part of its interest rate risk management strategy include interest rate swaps, interest rate floors, interest rate caps, forward contracts, options and swaptions. Interest rate swap contracts are exchanges of interest payments, such as fixed-rate payments for floating-rate payments, based on a common notional amount and maturity date. Interest rate floors protect against declining rates, while interest rate caps protect against rising interest rates. Forward contracts are contracts in which the buyer agrees to purchase, and the seller agrees to make delivery of, a specific financial instrument at a predetermined price or yield. Options provide the purchaser with the right, but not the obligation, to purchase or sell a contracted item during a specified period at an agreed upon price. Swaptions are financial instruments granting the owner the right, but not the obligation, to enter into or cancel a swap.

Prepayment volatility arises mostly from changes in fair value of the largely fixed-rate MSR portfolio, mortgage loans and mortgage-backed securities. The Bancorp may enter into various free-standing derivatives (principal-only swaps, swaptions, floors, options and interest rate swaps) to economically hedge prepayment volatility. Principal-only swaps are total return swaps based on changes in the value of the underlying mortgage principal-only trust.

Foreign currency volatility occurs as the Bancorp enters into certain foreign denominated loans. Derivative instruments that the Bancorp may use to economically hedge these foreign denominated loans include foreign exchange swaps and forward contracts.

The Bancorp also enters into derivative contracts (including foreign exchange contracts, commodity contracts and interest rate swaps, floors and caps) for the benefit of commercial customers. The Bancorp may economically hedge significant exposures related to these free-standing derivatives by entering into offsetting third-party contracts with approved, reputable counterparties with substantially matching terms and currencies. Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Bancorp s exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. The Bancorp minimizes the credit risk through credit approvals, limits, counterparty collateral and monitoring procedures.

Fair Value Hedges

The Bancorp may enter into interest rate swaps to convert its fixed-rate, long-term debt to floating-rate debt. Decisions to convert fixed-rate debt to floating are made primarily by consideration of the asset/liability mix of the Bancorp, the desired asset/liability sensitivity and interest rate levels. For the years ended December 31, 2006 and 2005, certain interest rate swaps met the criteria required to qualify for the shortcut method of accounting. Based on this shortcut method of accounting treatment, no ineffectiveness is assumed. For interest rate swaps that do not meet the shortcut requirements, an assessment of hedge effectiveness was performed and such swaps were accounted for using the long-haul method. The long-haul method requires periodic assessment of hedge effectiveness and measurement of ineffectiveness. The ineffectiveness results to the extent the changes in the fair value of derivative recorded does not offset changes in fair value of the debt due to changes in the hedged risk, in the Consolidated Statements of Income. For interest rate swaps accounted for as a fair value hedge using the long-haul method, ineffectiveness is the difference between the changes in the fair value of the interest rate swap and changes in fair value of the long-term debt attributable to the risk being hedged. For interest rate swaps that do not qualify for the shortcut method of accounting, the ineffectiveness is reported within interest expense in the Consolidated Statements of Income. For the years ended December 31, 2006 and 2005, changes in the fair value of any interest rate swaps attributed to hedge ineffectiveness were insignificant to the Bancorp s Consolidated

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During 2006 and 2005, the Bancorp terminated interest rate swaps designated as fair value hedges and in accordance with SFAS No. 133, an amount equal to the cumulative fair value adjustment to the hedged items at the date of termination is amortized as an adjustment to interest expense over the remaining term of the long-term debt. For the years ended December 31, 2006 and 2005, $14 million in net deferred losses, net of tax, and $3 million in net deferred gains, net of tax, on the terminated fair value hedges were amortized into interest expense, respectively.

The Bancorp also enters into forward contracts to hedge its residential mortgage loans held for sale. The hedged mortgage loans held for sale are grouped into portfolios of loans that share the same risk exposure. For the year ended December 31, 2006, the Bancorp recognized a net loss of $5 million related to the ineffectiveness of the hedging relationships. Those forward contracts that do not meet the criteria for fair value hedge accounting are accounted for as free-standing derivatives.

The following table reflects the notional amount and market value of all fair value hedges included in the Consolidated Balance Sheets as of December 31:

($ in millions)	**2006 Notional Amount**	**Fair Value**	**2005 Notional Amount**	**Fair Value**
Included in other assets:				
Interest rate swaps related to debt	**$**	**$**	500	21
Forward contracts related to mortgage loans held for sale	**653**	**4**	61	
Total included in other assets		**$ 4**		21
Included in other liabilities:				
Interest rate swaps related to debt	**$ 2,575**	**$ 95**	3,095	103
Forward contracts related to mortgage loans held for sale	**419**	**2**	739	3
Total included in other liabilities		**$ 97**		106

Cash Flow Hedges

The Bancorp may enter into interest rate swaps to convert floating-rate assets and liabilities to fixed rates and to hedge certain forecasted transactions. The assets and liabilities are typically grouped and share the same risk exposure for which they are being hedged. The Bancorp may also enter into forward contracts to hedge certain forecasted transactions.

The Bancorp has no outstanding cash flow hedges as of December 31, 2006 or 2005. In prior periods, the Bancorp terminated certain derivatives qualifying as cash flow hedges. The deferred gains or losses of those terminated instruments, net of tax, are included in accumulated other comprehensive income and are being amortized over the designated hedging periods, which range up to 4 months. As of December 31, 2006 and 2005, less than $1 million and $13 million, respectively, in net deferred losses, net of tax, related to terminated cash flow hedges were recorded in accumulated other comprehensive income. For the years ended December 31, 2006 and 2005, $12 million and $14 million, respectively, in net deferred losses, net of tax, on the terminated cash flow hedges were amortized into net interest income. As of December 31, 2006, less than $1 million in net deferred losses, net of tax, on terminated cash flow hedges included in accumulated other comprehensive income are expected to be reclassified into net interest income during the next 12 months.

Free-Standing Derivative Instruments

The majority of the free-standing derivative instruments the Bancorp enters into are for the benefit of commercial customers. These derivative contracts are not designated against specific assets or liabilities on the Consolidated Balance Sheets or to forecasted transactions and, therefore, do not qualify for hedge accounting. These instruments include foreign exchange derivative contracts entered into for the benefit of commercial customers involved in international trade to hedge their exposure to foreign currency fluctuations, commodity contracts to hedge such items as natural gas and various other derivative contracts. The Bancorp may economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms. The Bancorp hedges its interest rate exposure on commercial customer transactions by executing offsetting swap agreements with primary dealers. Revaluation gains and losses on foreign exchange, commodity and other commercial customer derivative contracts are recorded as a component of corporate banking revenue.

The Bancorp enters into foreign exchange derivative contracts to economically hedge certain foreign denominated loans. Derivative instruments that the Bancorp may use to economically hedge these foreign denominated loans include foreign exchange swaps and forward contracts. The Bancorp does not designate these instruments against the foreign denominated loans, and therefore, does not obtain hedge accounting treatment. Revaluation gains and losses on such foreign currency derivative contracts are recorded within other noninterest income in the Consolidated Statements of Income as are revaluation gains and losses on foreign denominated loans.

As part of its overall risk management strategy relative to its mortgage banking activity, the Bancorp may enter into various free-standing derivatives (principal-only swaps, swaptions, floors, options and interest rate swaps) to economically hedge changes in fair value of its largely fixed-rate MSR portfolio. Principal-only swaps hedge the mortgage-LIBOR spread because they appreciate in value as a result of tightening spreads. They also provide prepayment protection by increasing in value when prepayment speeds increase, as opposed to MSRs that lose value in a faster prepayment environment. Receive fixed/pay floating interest rate swaps and swaptions increase in value when interest rates do not increase as quickly as expected. The Bancorp enters into forward contracts to economically hedge the change in fair value of certain residential mortgage loans held for sale due to changes in interest rates. Interest rate lock commitments issued on residential mortgage loan commitments that will be held for resale are also considered free-standing derivative instruments and the interest rate exposure on these commitments is economically hedged primarily with forward contracts. Revaluation gains and losses from free-standing derivatives related to mortgage banking activity are recorded as a component of mortgage banking net revenue.

Additionally, the Bancorp occasionally may enter into free-standing derivative instruments (options, swaptions and interest rate swaps) in order to minimize significant fluctuations in earnings and cash flows caused by interest rate volatility. Revaluation gains and losses on interest rate risk derivative contracts are recorded within other noninterest income in the Consolidated Statements of Income.

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The net gains (losses) recorded in the Consolidated Statements of Income relating to free-standing derivative instruments for the years ended December 31 are summarized in the table below:

($ in millions)	2006	2005	2004
Foreign exchange contracts	**$ 56**	52	45
Forward contracts related to interest rate lock commitments and mortgage loans held for sale	**7**	(2)	(3)
Interest rate lock commitments	**(2)**	1	4
Derivative instruments related to MSR portfolio	**(9)**	(23)	(10)
Derivative instruments related to interest rate risk	**(20)**	3	7

The following table reflects the market value of all free-standing derivatives included in the Consolidated Balance Sheets as of December 31:

	2006		2005	
($ in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Foreign exchange contracts for customers	**$ 5,064**	**$ 164**	3,771	118
Interest rate contracts for customers	**8,174**	**110**	5,964	48
Commodity contracts for customers	**68**	**4**		
Foreign exchange contracts	**68**	**1**		
Derivative instruments related to MSR portfolio	**2,335**	**14**	560	4
Interest rate lock commitments	**389**	**2**	315	1
Forward contracts related to interest rate lock commitments	**243**	**1**	71	
Derivative instruments related to interest rate risk	**213**	**9**		
Total included in other assets		**$ 305**		171
Included in other liabilities:				
Foreign exchange contracts for customers	**$ 4,783**	**$ 149**	3,654	104
Interest rate contracts for customers	**8,398**	**110**	5,924	48
Commodity contracts for customers	**62**	**4**		
Derivative instruments related to MSR portfolio	**583**	**5**	586	10
Interest rate lock commitments	**750**	**3**	165	
Forward contracts related to interest rate lock commitments	**103**	**1**	416	1
Derivative instruments related to interest rate risk	**7**			
Total included in other liabilities		**$ 272**		163

The following table summarizes the Bancorp s derivative instrument positions (excluding $27.6 billion in notional amount from the customer accommodation program) at December 31, 2006:

($ in millions)	Notional Amount	Weighted-Average Remaining Maturity (in months)	Average Receive Rate	Average Pay Rate
Interest rate swaps related to debt:				

Receive fixed/pay floating	$ 2,775	107	4.85%	5.43%
Mortgage lending commitments:				
Forward contracts on mortgage loans held for sale and interest rate lock commitments	1,418	1		
Mortgage servicing rights portfolio:				
Principal-only swaps	48	2		4.23
Interest rate swaps Receive fixed/pay floating	785	62	5.12	5.37
Interest rate swaps Receive floating/pay fixed	460	86	5.36	4.95
Interest rate swaptions Receive fixed	1,225	5	4.86	
Interest rate swaptions Pay fixed	400	3		5.28
Foreign currency:				
Forward contracts	15	2		
Swaps	53	2		
Interest rate futures/forwards	20	2		
Total	$ 7,199			

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9. OTHER ASSETS

The following table provides the components of other assets included in the Consolidated Balance Sheets as of December 31:

($ in millions)	**2006**	**2005**
Bank owned life insurance	**$ 1,949**	$ 1,865
Accounts receivable and drafts-in-process	**1,446**	1,073
Partnership investments	**698**	388
Accrued interest receivable	**533**	511
Derivative instruments	**309**	192
Prepaid pension and other expenses	**119**	188
Other real estate owned	**90**	54
Other	**626**	116
Total	**$ 5,770**	$ 4,387

10. SHORT-TERM BORROWINGS

Borrowings with original maturities of one year or less are classified as short term. Federal funds purchased are excess balances in reserve accounts held at Federal Reserve Banks that the Bancorp purchased from other member banks on an overnight basis. Bank notes are promissory notes issued by the Bancorp s subsidiary banks. Other short-term borrowings include securities sold under repurchase agreements, FHLB advances and other borrowings with original maturities of one year or less. A summary of short-term borrowings and weighted-average rates follows:

	2006		**2005**		**2004**	
($ in millions)	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
As of December 31:						
Federal funds purchased	**$ 1,421**	**5.26%**	$ 5,323	3.93%	$ 4,714	2.00%
Short-term bank notes					775	2.30
Other short-term borrowings	**2,796**	**4.04**	4,246	2.94	4,537	1.71
Average for the years ending December 31:						
Federal funds purchased	**$ 4,148**	**5.02%**	$ 4,225	3.26%	$ 5,896	1.30%
Short-term bank notes			248	2.60	1,003	1.46
Other short-term borrowings	**4,522**	**4.28**	5,038	2.74	6,640	1.17
Maximum month-end balance:						
Federal funds purchased	**$ 5,434**		$ 6,378		$ 8,037	
Short-term bank notes			775		1,275	
Other short-term borrowings	**6,287**		6,531		8,233	

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11. LONG-TERM DEBT

A summary of long-term borrowings at December 31:

($ in millions)	Maturity	Interest Rate	2006	2005
Parent Company				
Senior:				
Extendable notes	2007 - 2009	5.33%	**$ 1,748**	1,749
Subordinated:				
Fixed-rate notes *(b)*	2017	5.45%	**492**	
Fixed-rate notes *(b)*	2018	4.50%	**459**	463
Floating-rate notes *(b)*	2016	5.79%	**250**	
Junior subordinated:				
Fixed-rate debentures *(b)*	2027	8.136%	**217**	219
Subsidiaries				
Senior:				
Fixed-rate bank notes	2007 - 2019	2.70% - 5.20%	**2,006**	2,030
Floating-rate bank notes	2013	5.48%	**500**	1,150
Extendable bank notes	2008 - 2014	5.40% - 5.45%	**1,200**	1,199
Subordinated:				
Fixed-rate bank notes *(b)*	2015	4.75%	**492**	497
Junior subordinated:				
Floating-rate debentures *(a)*	2027	6.17%	**103**	103
Floating-rate debentures *(a)*	2033 - 2034	8.15% - 8.27%	**67**	67
Mandatorily redeemable securities *(a)*	2031	Varies	**647**	596
Federal Home Loan Bank advances	2007 - 2037	0% - 8.34%	**4,258**	4,790
Securities sold under repurchase agreements				2,300
Other	2007 - 2032	Varies	**119**	64
Total			**$ 12,558**	15,227

(a) Qualify as Tier I capital for regulatory capital purposes.

(b) Qualify as Tier II capital for regulatory capital purposes.

The senior extendable notes are obligations of the Bancorp. These notes currently pay interest at one-month LIBOR and, in 2007, can be extended for twelve months to pay interest at one-month LIBOR plus 1 bp. In 2008, the notes can be extended an additional twelve months paying an interest rate of one-month LIBOR plus 2 bp. The final maturity of these notes is 2009.

The subordinated fixed-rate notes due in 2017 and 2018 are the obligation of the Bancorp. The Bancorp entered into interest rate swaps to convert the fixed-rate notes to floating-rate. The rate paid on these swaps was 5.37% at December 31, 2006.

The subordinated floating-rate notes due in 2016 are obligations of the Bancorp. The notes pay interest at three-month LIBOR plus 42 bp.

The Bancorp issued the 8.136% junior subordinated debentures due in 2027 to Fifth Third Capital Trust I (FTCT1). The Bancorp has fully and unconditionally guaranteed all of FTCT1 s obligations under trust preferred securities issued by FTCT1. The Bancorp entered into a swap to convert the fixed-rate debt into floating. The interest rate paid on the swap was 5.86% at December 31, 2006. The trust preferred securities have been called in the first quarter of 2007.

The three-month LIBOR plus 80 bp junior subordinated debentures due in 2027 were issued to Old Kent Capital Trust 1 (OKCT1). The Bancorp has fully and unconditionally guaranteed all of OKCT1 s obligations under trust preferred securities issued by OKCT1. The trust preferred securities were redeemed in the first quarter of 2007.

The three-month LIBOR plus 290 bp and the three-month LIBOR plus 279 bp junior subordinated debentures due in 2033 and 2034, respectively, were assumed by a subsidiary of the Bancorp in connection with the acquisition of First National. The obligations were issued to FNB Statutory Trusts I and II (STAT I and STAT II), respectively. The Bancorp has fully and unconditionally guaranteed all obligations of STAT I and STAT II under trust preferred securities issued by STAT I and STAT II, respectively.

The senior fixed-rate bank notes due from 2007 to 2019 are the obligations of a subsidiary bank. The maturities of the face value of the senior fixed-rate bank notes are as follows: $375 million in 2007, $500 million in 2008, $109 million in 2009, $800 million in 2010 and $275 million in 2019. The Bancorp entered into swaps to convert $1.1 billion of the fixed-rate debt into floating. At December 31, 2006, the rates paid on these swaps ranged from 5.37% to 5.41%.

The subordinated fixed-rate bank notes due in 2015 are the obligations of a subsidiary bank. The Bancorp entered into swaps to convert the fixed-rate debt into floating. At December 31, 2006, the rate paid on the swaps ranged from 5.34% to 5.60%.

The mandatorily redeemable securities due 2031 relate to a preferred stock obligation of a subsidiary of the Bancorp. The preferred stock will be automatically exchanged for trust preferred securities in 2031. Beginning five years from the date of issuance, the Bancorp s subsidiary has the option, subject to regulatory approval, to exchange the preferred stock for trust preferred securities or cash upon a change in the Bancorp s senior debt rating to or below BBB, a change in the investor s tax elections or a change to applicable tax law.

At December 31, 2006, FHLB advances have rates ranging from 0% to 8.34%, with interest payable monthly. The advances were secured by certain residential mortgage loans and securities totaling $8.7 billion. The advances mature as follows: $1.6 billion in 2007, $13 million in 2008, $1.5 billion in 2009, $1 million in 2010 and $1.1 billion in 2011 and thereafter.

Medium-term senior notes and subordinated bank notes with maturities ranging from one year to 30 years can be issued by two subsidiary banks, of which $4.2 billion was outstanding at December 31, 2006 with $15.8 billion available for future issuance. There were no other medium-term senior notes outstanding on either of the two subsidiary banks as of December 31, 2006.

The Bancorp pays down long-term debt in accordance with contractual terms over maturity periods summarized in the above table. Contractually obligated payments for long-term debt are due over the following periods: $2.0 billion in less than one year; $3.9 billion in one to three years; $.8 billion in three to five years; and $5.9 billion in greater than five years.

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12. COMMITMENTS AND CONTINGENT LIABILITIES

The Bancorp, in the normal course of business, uses derivatives and other financial instruments to manage its interest rate risks and prepayment risks and to meet the financing needs of its customers. These financial instruments primarily include commitments to extend credit, standby and commercial letters of credit, foreign exchange contracts, commitments to sell residential mortgage loans, principal-only swaps, interest rate swap agreements, interest rate floors, interest rate caps, commodities contracts, written options and interest rate lock commitments. These instruments involve, to varying degrees, elements of credit risk, counterparty risk and market risk in excess of the amounts recognized in the Bancorp s Consolidated Balance Sheets. As of December 31, 2006, all of the Bancorp s risk management derivatives exposure was to investment grade companies. The contract or notional amounts of these instruments reflect the extent of involvement the Bancorp has in particular classes of financial instruments.

Creditworthiness for all instruments is evaluated on a case-by-case basis in accordance with the Bancorp s credit policies. While notional amounts are typically used to express the volume of these transactions, it does not represent the much smaller amounts that are potentially subject to credit risk. Entering into derivative instruments involves the risk of dealing with counterparties and their ability to meet the terms of the contract. The Bancorp controls the credit risk of these transactions through adherence to a derivatives products policy, credit approval policies and monitoring procedures. Collateral, if deemed necessary, is based on management s credit evaluation of the counterparty and may include business assets of commercial borrowers, as well as personal property and real estate of individual borrowers and guarantors.

A summary of significant commitments and contingent liabilities at December 31:

	Contract or Notional Amount	
($ in millions)	**2006**	**2005**
Commitments to extend credit	**$ 42,085**	35,724
Letters of credit (including standby letters of credit)	**8,163**	7,300
Customer derivatives in a gain position	**3,911**	2,410
Forward contracts to sell mortgage loans	**1,418**	1,285
Noncancelable lease obligations	**695**	609
Purchase obligations	**24**	34

Commitments to extend credit are agreements to lend, typically having fixed expiration dates or other termination clauses that may require payment of a fee. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements. The Bancorp is exposed to credit risk in the event of nonperformance for the amount of the contract. Fixed-rate commitments are also subject to market risk resulting from fluctuations in interest rates and the Bancorp s exposure is limited to the replacement value of those commitments. As of December 31, 2006 and 2005, the Bancorp had a reserve for probable credit losses totaling $75 million and $69 million, respectively, included in other liabilities.

Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. At December 31, 2006, approximately $2.9 billion of standby letters of credit expire within one year, $4.8 billion expire between one to five years and $.5 billion expire thereafter. At December 31, 2006, letters of credit of approximately $32 million were issued to commercial customers for a duration of one year or less to facilitate trade payments in domestic and foreign currency transactions. At December 31, 2006 and 2005, the reserve related to these standby letters of credit was less than $1 million. Approximately 69% of the total standby letters of credit were secured as of December 31, 2006 and 2005. In the event of nonperformance by the customers, the Bancorp has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

As discussed in Note 8, the Bancorp s policy is to enter into derivative contracts to accommodate customers, to offset customer accommodations and to offset its own market risk incurred in the ordinary course of its business. Contingent obligations arising from market risk assumed in derivatives are offset with additional rights contained in other derivatives or contracts, such as loans or borrowings. A liability arises when a customer does not perform according to the derivative contract while the Bancorp must perform the offsetting agreement. Customer derivatives in a gain position with a corresponding offset are included in the table. The fair value of these contracts at December 31, 2006 and 2005 were $45 million and $31 million, respectively.

The Bancorp s subsidiaries have entered into a number of noncancelable lease agreements. The minimum rental commitments under noncancelable lease agreements are shown in the table. The Bancorp has also entered into a limited number of agreements for work related to banking center construction and to purchase goods or services.

There are claims pending against the Bancorp and its subsidiaries that have arisen in the normal course of business. See Note 13 for additional information regarding these proceedings.

13. LEGAL AND REGULATORY PROCEEDINGS

During May 2005, the Bancorp filed suit in the United States District Court for the Southern District of Ohio related to a dispute with the Internal Revenue Service concerning the timing of deductions associated with certain leveraged lease transactions in its 1997 tax return. The Internal Revenue Service has also proposed adjustments to the tax effects of certain leveraged lease transactions in subsequent tax return years. The proposed adjustments, including penalties, relate to the Bancorp s portfolio of lease-in lease-out transactions, service contract leases and qualified technology equipment leases with both domestic and foreign municipalities. The Bancorp is challenging the Internal Revenue Service s proposed treatment of all of these leasing transactions. The Bancorp s original net investment in these leases totaled approximately $900 million. The Bancorp continues to believe that its treatment of these leveraged leases was appropriate and in compliance with applicable tax law and regulations. While management cannot predict with certainty the result of the suit, given the tax treatment of these transactions has been challenged by the Internal Revenue Service, the Bancorp believes a resolution may involve a projected change in the timing of the leveraged lease cash flows. Recently issued FSP FAS 13-2, which is effective as of January 1, 2007, mandates that a change or projected change in the timing of lessor cash flows related to income taxes generated by leveraged lease transactions, excluding interest and penalty assessments, will require a lessor to recalculate the rate of return and allocation of income to positive investment years from inception of the lease. Upon adoption of FSP FAS 13-2 on January 1, 2007, the Bancorp recorded a $96 million after-tax charge to retained earnings related to its portfolio of leveraged leases. The amount of this reduction will be recognized as income over the remaining term of the affected leases. In January 2007, the Bancorp made a $356 million deposit with the IRS to mitigate the risk associated with tax years after 1997 and, in particular, the leveraged lease transactions noted above. The deposit enables the

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Bancorp to stop the accrual of interest at a current rate of 8-10% on any tax deficiency to the extent of the deposit if the Bancorp is not ultimately successful in its suit.

On April 26, 2006 the Bancorp was added as a defendant in a consolidated antitrust class action lawsuit originally filed against Visa®, MasterCard® and several other major financial institutions in the United States District Court for the Eastern District of New York. The plaintiffs, merchants operating commercial businesses throughout the U.S. and trade associations, claim that the interchange fees charged by card-issuing banks are unreasonable and seek injunctive relief and unspecified damages. As this litigation is still in its early stages, it is not possible for management to assess the probability of a material adverse outcome or the range of possible damages to the Bancorp, if any.

As an outgrowth of the recent SEC consent order involving BISYS Fund Services, Inc. (BISYS), which has provided certain administrative services to the Fifth Third Funds, Fifth Third Asset Management, Inc. (FTAM), an indirect wholly-owned subsidiary of the Bancorp, has received an informal request for information from the SEC regarding its past dealings with BISYS. FTAM is responding to the SEC s requests and intends to cooperate with the SEC in this review. The impact to the Bancorp of the final disposition of this inquiry cannot be assessed at this time.

Several putative class action complaints have been filed against the Bancorp in various federal courts and one state court. The Bancorp has filed to remove the state court action to federal court. The complaints relate to an alleged intrusion of The TJX Companies, Inc. s (TJX) computer system and the potential theft of their customers non-public personal information and alleged violations of the Graham-Leach-Bliley Act. Some of the complaints were filed by consumers and seek unquantified damages on behalf of putative classes of persons who transacted business at any one of TJX s stores during the period of May 2006 through December 2006. Another was filed by a bank and seeks unquantified damages on behalf of other similarly situated entities that suffered losses in relation to the alleged intrusion. Management believes there are substantial defenses to these claims and intends to defend them vigorously. The impact of the final disposition of these lawsuits cannot be assessed at this time.

The Bancorp and its subsidiaries are not parties to any other material litigation. However, there are other litigation matters which arise in the normal course of business. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, management believes any resulting liability from these other actions would not have a material effect upon the Bancorp s consolidated financial position or results of operations or cash flows.

14. GUARANTEES

The Bancorp has performance obligations upon the occurrence of certain events under financial guarantees provided in certain contractual arrangements. These various arrangements are summarized below.

At December 31, 2006 and 2005, the Bancorp had issued $8.1 billion and $7.3 billion, respectively, of financial and performance standby letters of credit to guarantee the performance of various customers to third parties. The maximum amount of credit risk in the event of nonperformance by these parties is equivalent to the contract amount and totals $8.1 billion and $7.3 billion, respectively. Upon issuance, the Bancorp recognizes a liability equal to the amount of fees received from the customer for these standby letter of credit commitments. At December 31, 2006 and 2005, the reserve related to these standby letters of credit was less than $1 million. Approximately 69% of the total standby letters of credit were secured as of December 31, 2006 and 2005. In the event of nonperformance by the customers, the Bancorp has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

Through December 31, 2006 and 2005, the Bancorp had transferred, subject to credit recourse, certain primarily floating-rate, short-term investment grade commercial loans to an unconsolidated qualified special purpose entity (QSPE) that is wholly owned by an independent third-party. The outstanding balance of such loans at December 31, 2006 and 2005 was approximately $3.4 billion and $2.8 billion, respectively. These loans may be transferred back to the Bancorp upon the occurrence of certain specified events. These events include borrower default on the loans transferred, bankruptcy preferences initiated against underlying borrowers and ineligible loans transferred by the Bancorp to the QSPE. The maximum amount of credit risk in the event of nonperformance by the underlying borrowers is approximately equivalent to the total outstanding balance of $3.4 billion and $2.8 billion, respectively, at December 31, 2006 and 2005. In addition, the Bancorp s agreement to provide liquidity support to the QSPE was $3.8 billion as of year end 2006 compared to $3.4 billion as of year end 2005. At December 31, 2006 and 2005, the Bancorp s loss reserve related to the liquidity support and credit enhancement provided to the QSPE was $16 million and $10 million, respectively, recorded in other liabilities on the Consolidated Balance Sheets.

At December 31, 2006 and 2005, the Bancorp had provided credit recourse on approximately $1.3 billion of residential mortgage loans sold to unrelated third parties. In the event of any customer default, pursuant to the credit recourse provided, the Bancorp is required to reimburse the third party. The maximum amount of credit risk in the event of nonperformance by the underlying borrowers is equivalent to the total outstanding balance. In the event of nonperformance, the Bancorp has rights to the underlying collateral value attached to the loan. The Bancorp maintained an estimated credit loss reserve of approximately $18 million and $21 million relating to these residential mortgage loans sold at December 31, 2006 and 2005, respectively, recorded in other liabilities on the Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of residential mortgage loans held in its loan portfolio.

As of December 31, 2006 and 2005, the Bancorp had fully and unconditionally guaranteed $376 million of certain long-term borrowing obligations issued by four wholly-owned issuing trust entities.

The Bancorp, through its electronic payment processing division, processes VISA® and MasterCard® merchant card transactions. Pursuant to VISA® and MasterCard® rules, the Bancorp assumes certain contingent liabilities relating to these transactions which typically arise from billing disputes between the merchant and cardholder that are ultimately resolved in the cardholder s favor. In such cases, these transactions are charged back to the merchant and disputed amounts are refunded to the cardholder. If the Bancorp is unable to collect these amounts from the merchant, it will bear the loss for refunded amounts. The likelihood of incurring a contingent liability arising from chargebacks is relatively low, as most products or services are delivered when purchased and credits are issued on returned items. For the years ended December 31, 2006 and 2005, the Bancorp processed approximately $120 million and $100 million, respectively, of chargebacks presented by issuing banks, resulting in no material actual losses to the Bancorp. The Bancorp accrues for probable losses based on historical experience and did not carry a credit loss reserve at December 31, 2006 and 2005.

Fifth Third Securities, Inc (FTS), a subsidiary of the Bancorp, guarantees the collection of all margin account balances

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held by its brokerage clearing agent for the benefit of FTS customers. FTS is responsible for payment to its brokerage clearing agent for any loss, liability, damage, cost or expense incurred as a result of customers failing to comply with margin or margin maintenance calls on all margin accounts. The margin account balance held by the brokerage clearing agent as of December 31, 2006 was $51 million compared to $55 million as of December 31, 2005. In the event of any customer default, FTS has rights to the underlying collateral provided. Given the existence of the underlying collateral provided and negligible historical credit losses, FTS does not maintain a loss reserve.

15. RELATED PARTY TRANSACTIONS

At December 31, 2006 and 2005, certain directors, executive officers, principal holders of Bancorp common stock, associates of such persons, and affiliated companies of such persons were indebted, including undrawn commitments to lend, to the Bancorp s banking subsidiaries in the aggregate amount, net of participations, of $271 million and $307 million, respectively. As of December 31, 2006 and 2005, the outstanding balance on loans to related parties, net of participations and undrawn commitments, was $76 million and $81 million, respectively.

Commitments to lend to related parties as of December 31, 2006 and 2005, net of participations, were comprised of $260 million and $296 million, respectively, to directors and $11 million at December 31, 2006 and 2005 to executive officers. The commitments are in the form of loans and guarantees for various business and personal interests. This indebtedness was incurred in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties. This indebtedness does not involve more than the normal risk of repayment or present other unfavorable features.

None of the Bancorp s affiliates, officers, directors or employees has an interest in or receives any remuneration from any special purpose entities or qualified special purpose entities with which the Bancorp transacts business.

The Bancorp maintains a written policy and procedures covering related party transactions. These procedures cover transactions such as employee-stock purchase loans, personal lines of credit, residential secured loans, overdrafts, letters of credit and increases in indebtedness. Such transactions are subject to the Bancorp s normal underwriting and approval procedures. Prior to the loan closing, Compliance Risk Management must approve and determine whether the transaction requires approval from or a post notification be sent to the Bancorp s Board of Directors.

16. OTHER COMPREHENSIVE INCOME

The Bancorp has elected to present the disclosures required by SFAS No. 130, Reporting of Comprehensive Income, in the Consolidated Statements of Changes in Shareholders Equity and in the table below. The Bancorp adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires companies to recognize the unamortized actuarial net gains or losses and unamortized prior service costs as components of accumulated other comprehensive income.

Disclosure of the reclassification adjustments, related tax effects allocated to other comprehensive income and accumulated other comprehensive income as of and for the years ended December 31 were as follows:

	Current Period Activity			Accumulated Balance		
($ in millions)	**Pretax**	**Tax Effect**	**Net**	**Pretax**	**Tax Effect**	**Net**
2006						
Gains (losses) on available-for-sale securities	$ 61	(20)	41	$ (183)	64	(119)
Reclassification adjustment for net losses recognized in net income	364	(129)	235			
Reclassification adjustment for cash flow hedge derivative net losses recognized in net income	20	(8)	12	(2)	1	(1)

Total other comprehensive income	**$ 445**	**(157)**	**288**	**(185)**	**65**	**(120)**
Cumulative effect of change in accounting for pension and other postretirement obligations				**(92)**	**33**	**(59)**
Total accumulated other comprehensive income				**$ (277)**	**98**	**(179)**
2005						
Losses on available-for-sale securities	$ (455)	158	(297)	(608)	213	(395)
Reclassification adjustment for net gains recognized in net income	(39)	13	(26)			
Gains (losses) on cash flow hedge derivatives	9	(3)	6	(22)	9	(13)
Reclassification adjustment for net losses recognized in net income	21	(7)	14			
Change in minimum pension liability	90	(31)	59	(8)	3	(5)
Total	$ (374)	130	(244)	(638)	225	(413)
2004						
Losses on available-for-sale securities	$ (74)	27	(47)	(114)	42	(72)
Reclassification adjustment for net losses recognized in net income	37	(13)	24			
Losses on cash flow hedge derivatives	(39)	15	(24)	(52)	19	(33)
Reclassification adjustment for net gains recognized in net income	(1)		(1)			
Change in minimum pension liability	(1)		(1)	(98)	34	(64)
Total	$ (78)	29	(49)	(264)	95	(169)

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17. COMMON STOCK AND TREASURY STOCK

The following is a summary of the share activity within common stock issued and treasury stock for the years ended December 31:

($ and shares in millions)	Common Stock Value	Common Stock Shares	Treasury Stock Value	Treasury Stock Shares
Shares at December 31, 2003	$ 1,295	583	$ 962	17
Shares acquired for treasury			987	19
Stock-based awards exercised, including treasury shares issued			(222)	(4)
Restricted stock grants			(33)	(1)
Shares issued in business combinations			(281)	(5)
Other			1	
Shares at December 31, 2004	1,295	583	1,414	26
Shares acquired for treasury			1,746	38
Stock-based awards exercised, including treasury shares issued			(206)	(4)
Restricted stock grants			(43)	(1)
Shares issued in business combinations	11	5	(1,413)	(26)
Retirement of shares	(11)	(5)	(219)	(5)
Shares at December 31, 2005	1,295	583	1,279	28
Shares acquired for treasury			82	2
Stock-based awards exercised, including treasury shares issued			(84)	(2)
Restricted stock grants			(45)	(1)
Shares at December 31, 2006	**$ 1,295**	**583**	**$ 1,232**	**27**

During 2004, the Bancorp repurchased approximately 18 million shares of its common stock, approximately three percent of total outstanding shares, for $987 million.

On January 10, 2005, the Bancorp executed an overnight share repurchase transaction with a counterparty for the acquisition of 35.5 million shares of its common stock at a purchase price of $45.95 per share, or $1.6 billion. Pursuant to the agreement with the counterparty, the counterparty purchased 35.5 million shares in the open market over a period of time that was completed during the third quarter of 2005. In accordance with EITF Issue 99-7 Accounting for an Accelerated Share Repurchase Program, the share transaction was considered two separate transactions, (i) the acquisition of treasury shares on the acquisition date and (ii) a forward contract indexed to the Bancorp s stock. The treasury shares were accounted for at cost as a contra equity transaction. The forward contract associated with the overnight share repurchase transaction was accounted for in accordance with EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, as an equity instrument. At the end of the purchase period, the Bancorp received a cash payment of $97 million for the purchase price adjustment based on the volume weighted average purchase price of $43.55. The payment received in connection with the price adjustment was recorded as an addition to capital surplus. Additionally, for diluted earnings per share purposes, the Bancorp assumed the transaction would be net settled in shares as the Bancorp had the choice of settling in cash or shares and the Bancorp did not have a stated policy or the ability to demonstrate a past practice of cash settlement. These incremental shares were subsequently excluded from quarterly earnings per share calculations, as the effect of inclusion would have been anti-dilutive.

On January 18, 2005, the Bancorp announced that its Board of Directors had authorized management to purchase 20 million shares of the Bancorp s common stock through the open market or in any private transaction. The timing of the purchases and the exact number of shares to be purchased depends upon market conditions. The authorization does not include specific price targets or an expiration date. The Bancorp s stock repurchase program is an important element of its capital planning activities and the Bancorp views share repurchases as an effective means of delivering value to shareholders.

During 2006, the Bancorp repurchased approximately 2 million shares of its common stock, less than one percent of total outstanding shares, for $82 million. At December 31, 2006, approximately 15.8 million shares remain authorized for repurchase.

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18. STOCK-BASED COMPENSATION

The Bancorp has historically emphasized employee stock ownership. Based on total stock-based awards outstanding and shares remaining for future grants under the Incentive Compensation Plan, the Bancorp s total overhang is approximately nine percent. The following table provides detail of the number of shares to be issued upon exercise of outstanding stock-based awards and remaining shares available for future issuance under all of the Bancorp s equity compensation plans as of December 31, 2006:

Plan Category (shares in thousands)	Number of Shares to Be Issued Upon Exercise	Weighted-Average Exercise Price	Shares Available for Future Issuance *(a)*
Equity compensation plans approved by shareholders			
Stock options	24,456	$ 49.08	*(b)*
Restricted stock	2,380	*(c)*	*(b)*
Performance units	*(d)*	*(c)*	*(b)*
Stock appreciation rights (SARs)	*(e)*	*(e)*	*(b)*
Equity compensation plans not approved by shareholders			
Employee stock purchase plan			1,613*(f)*
Total *(g)*	26,836	$ 49.08	13,748*(h)*

(a) *Excludes shares to be issued upon exercise of outstanding options.*

(b) *Under the Incentive Compensation Plan, 20.0 million shares of stock were authorized for issuance as nonqualified and incentive stock options, SARs, restricted stock and restricted stock units, performance shares and performance units and stock awards. As of December 31, 2006, 11.9 million shares remain available for future issuance.*

(c) *Not applicable*

(d) *The number of shares to be issued is dependent upon the Bancorp achieving certain predefined performance targets and ranges from zero shares to approximately 293 thousand shares, dependent on relative performance.*

(e) *At December 31, 2006, approximately 13.1 million SARs were outstanding at a weighted-average grant price of $43.43. The number of shares to be issued upon exercise will be determined at vesting based on the difference between the grant price and the market price at the date of exercise.*

(f) *Represents remaining shares of Fifth Third common stock under the Bancorp s 1993 Stock Purchase Plan, as amended and restated, including an additional 1,500,000 shares approved by shareholders on March 28, 2006.*

(g) *Excludes 2.4 million outstanding options awarded under plans assumed by the Bancorp in connection with certain mergers and acquisitions. The Bancorp has not made any awards under these plans and will make no additional awards under these plans. The weighted-average exercise price of the outstanding options is $32.63 per share.*

(h) *Includes .3 million shares issuable relating to deferred stock compensation plans.*

Stock-based awards are eligible for issuance under the Bancorp s Incentive Compensation Plan to key employees and directors of the Bancorp and its subsidiaries. The Incentive Compensation Plan was approved by shareholders on March 23, 2004. The plan authorized the issuance of up to 20 million shares as equity compensation and provides for nonqualified and incentive stock options, stock appreciation rights, restricted stock and restricted stock units, performance shares and performance units and stock awards. Stock options and SARs are issued at fair market value based on the closing price on the date of grant, have up to ten-year terms and vest and become fully exercisable at the end of three to four years of continued employment. Currently, all SARs outstanding are to be settled with stock. Restricted stock grants vest either after four years or ratably after three, four and five years of continued employment and include dividend and voting rights.

As discussed in Note 1, effective January 1, 2006, the Bancorp adopted SFAS No. 123(R) using the modified retrospective application basis in accounting for stock-based compensation plans. Under SFAS No. 123(R), the Bancorp recognizes compensation expense for the grant-date fair value of stock-based compensation issued over its requisite service period. Awards with a graded vesting are expensed on a straight-line basis. The grant-date fair value of stock options is measured using the Black- Scholes option-pricing model.

The Bancorp uses the following assumptions, which are evaluated and revised as necessary, in estimating the grant-date fair value of each option grant for the year ended:

	2006	**2005**	**2004**
Expected option life (in years)	**6**	6	6
Expected volatility	**23%**	26%	28%
Expected dividend yield	**4.1%**	3.5%	2.3%
Risk-free interest rate	**4.9%**	4.3%	3.9%

The expected option life is derived from historical exercise patterns and represents the amount of time that options granted are expected to be outstanding. The expected volatility is based on a combination of historical and implied volatilities of the Bancorp s stock. The interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock-based compensation expense was $76 million, $65 million and $87 million for the years ended December 31, 2006, 2005 and 2004, respectively. The total related income tax benefit recognized was $23 million, $16 million and $18 million for the years ended December 31, 2006, 2005 and 2004, respectively. The following tables include a summary of stock-based compensation transactions for the previous three fiscal years:

	2006		**2005**		**2004**	
Stock Options (shares in thousands)	**Shares**	**Weighted-Average Option Price**	**Shares**	**Weighted-Average Option Price**	**Shares**	**Weighted-Average Option Price**
Outstanding at January 1	**31,546**	**$ 46.49**	36,162	$ 45.31	40,727	$ 44.40
Granted *(a)*			2,515	22.90	1,105	19.81
Exercised	**(1,931)**	**21.70**	(4,830)	21.16	(4,248)	25.41
Forfeited or expired	**(2,715)**	**53.24**	(2,301)	54.30	(1,422)	58.07
Outstanding at December 31	**26,900**	**$ 47.58**	31,546	$ 46.49	36,162	$ 45.31
Exercisable at December 31	**25,978**	**$ 47.43**	29,364	$ 46.01	30,912	$ 43.57

(a) *2005 stock options granted include 2,514 options assumed as part of the First National acquisition completed on January 1, 2006. These options were granted under a First National plan assumed by the Bancorp. 2004 options granted include 1,021 options assumed as part of the Franklin Financial acquisition completed on June 11, 2004. These stock options were granted under a Franklin Financial plan assumed by the Bancorp.*

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There were no stock options granted during 2006. The weighted-average grant-date fair value of options granted for the years ended 2005 and 2004 was $20.54 and $36.57 per share, respectively.

The total intrinsic value of options exercised was $32 million, $103 million and $121 million in 2006, 2005 and 2004, respectively. Cash received from options exercised was $35 million, $90 million and $105 million in 2006, 2005 and 2004, respectively. The actual tax benefit realized from the exercised options was $9 million, $28 million and $21 million in 2006, 2005 and 2004, respectively. The total grant-date fair value of stock options that vested during 2006, 2005 and 2004 was $25 million, $78 million and $104 million, respectively.

At December 31, 2006, there was $7 million of compensation expense related to non-vested stock options not yet recognized. The expense is expected to be recognized over a remaining weighted-average period of approximately 2.1 years.

	2006			2005			2004		
Stock Appreciation Rights (shares in thousands)	**Shares**	**Weighted-Average Grant Price**		**Shares**	**Weighted-Average Grant Price**		**Shares**	**Weighted-Average Grant Price**	
Outstanding at January 1	**7,541**	**$**	**47.51**	3,529	$	54.37		$	
Granted	**6,949**		**39.18**	4,892		42.82	3,716		54.37
Exercised									
Forfeited or expired	**(1,437)**		**44.31**	(880)		48.88	(187)		54.40
Outstanding at December 31	**13,053**	**$**	**43.43**	7,541	$	47.51	3,529	$	54.37
Exercisable at December 31	**989**	**$**	**42.99**	4	$	54.37	1	$	54.40

The weighted-average grant-date fair value of SARs granted was $7.35, $9.31 and $14.11 per share for the years ended 2006, 2005 and 2004, respectively. The total grant-date fair value of SARs that vested during 2006, 2005 and 2004 was $10 million, $.05 million and $.01 million, respectively.

At December 31, 2006, there was $52 million of compensation expense related to non-vested SARs not yet recognized. The expense is expected to be recognized over a remaining weighted-average period of approximately 1.7 years.

	2006			2005			2004		
Restricted Stock (shares in thousands)	**Shares**	**Weighted-Average Grant Date Fair Value**		**Shares**	**Weighted-Average Grant Date Fair Value**		**Shares**	**Weighted-Average Grant-Date Fair Value**	
Nonvested at January 1	**1,482**	**$**	**46.16**	596	$	54.01	48	$	58.11
Granted	**1,265**		**38.93**	1,086		42.31	607		53.86
Vested	**(24)**		**44.91**	(29)		50.62	(18)		59.16
Forfeited	**(343)**		**40.76**	(171)		48.19	(41)		54.26
Nonvested at December 31	**2,380**	**$**	**40.28**	1,482	$	46.16	596	$	54.01

The total grant-date fair value of restricted stock that vested during 2006, 2005 and 2004 was $1.1 million, $1.2 million and $1.1 million, respectively. At December 31, 2006, there was $43 million of compensation expense related to nonvested restricted stock not yet recognized. The expense is expected to be recognized over a remaining weighted-average period of approximately 2.5 years.

The Bancorp has no specific policy to repurchase common shares to mitigate the dilutive impact of options; however, the Bancorp has historically made adequate discretionary purchases based on cash availability, market trends and other factors, to satisfy stock option exercise activity.

At December 31, 2006, there were 9.7 million incentive options, 17.2 million non-qualified options, 13.1 million SARs and 2.4 million restricted stock awards outstanding, .3 million shares reserved for performance unit awards and 11.9 million shares available for grant. As of December 31, 2006, the aggregate intrinsic value of both outstanding options and exercisable options was $64 million. Stock options, SARs and restricted stock outstanding represent eight percent of the Bancorp s issued shares at December 31, 2006.

	Outstanding Stock Options			Exercisable Stock Options		
Exercise Price per Share	**Number of Options at Year End (000 s)**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (in years)**	**Number of Options at Year End (000 s)**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (in years)**
Under $ 10.00	47	$ 7.98	3.31	47	$ 7.98	3.31
$10.01-$ 25.00	1,922	21.45	1.48	1,922	21.45	1.48
$25.01-$ 40.00	4,414	35.92	1.87	4,414	35.92	1.87
$40.01-$ 55.00	15,614	48.29	4.00	14,770	48.11	3.87
Over $ 55.01	4,903	66.46	5.28	4,825	66.60	5.27
All options	26,900	$ 47.58	3.70	25,978	$ 47.43	3.61

In addition, approximately 111 thousand shares of performance-based awards were granted during 2006. These awards are payable in stock and cash contingent upon the Bancorp achieving certain predefined performance targets over the three-year measurement period. These performance targets are based on the Bancorp s performance relative to a defined peer group. The performance-based awards were granted at a weighted-average grant-date fair value of $39.14 per share.

The Bancorp sponsors a Stock Purchase Plan that allows qualifying employees to purchase shares of the Bancorp s common stock with a 15% match. During the years ended December 31, 2006, 2005 and 2004, respectively, there were 317,483, 333,472 and 236,115 shares purchased by participants and the Bancorp recognized compensation expense of $2 million for each of the years ended 2006, 2005 and 2004.

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19. OTHER NONINTEREST INCOME AND OTHER NONINTEREST EXPENSE

The major components of other noninterest income and other noninterest expense for the years ended December 31:

($ in millions)	2006	2005	2004
Other noninterest income:			
Cardholder fees	**$ 49**	46	39
Consumer loan and lease fees	**47**	50	57
Operating lease income	**26**	55	156
Bank owned life insurance income	**86**	91	61
Insurance income	**28**	27	28
Gain on sale of third-party sourced merchant processing contracts			157
Other	**64**	91	89
Total	**$ 300**	360	587
Other noninterest expense:			
Marketing and communications	**$ 124**	126	99
Postal and courier	**49**	50	49
Bankcard	**317**	271	224
Loan and lease	**93**	89	82
Travel	**52**	54	41
Information technology and operations	**112**	114	87
Operating lease	**18**	40	114
Debt and other financing agreement termination	**49**		325
Other	**409**	441	403
Total	**$ 1,223**	1,185	1,424

20. SALES AND TRANSFERS OF LOANS

The Bancorp sold fixed and adjustable rate residential mortgage loans and student loans during 2006 and 2005. The Bancorp also securitized and sold certain automotive loans in 2004 and securitized and sold certain home equity lines of credit in 2003. In all of those sales, the Bancorp retained servicing responsibilities. In addition, the Bancorp retained a residual interest and an interest only strip (IO strip) in the home equity lines of credit securitization and a residual interest and subordinated tranche in the automotive loans securitization. The Bancorp receives annual servicing fees at a percentage of the outstanding balance and rights to future cash flows arising after the investors in the securitization trusts have received the return for which they contracted. The investors and the securitization trusts have no recourse to the Bancorp s other assets for failure of debtors to pay when due. The Bancorp s retained interests are subordinate to investor s interests. Their value is subject to credit, prepayment and interest rate risks on the sold financial assets. In 2006 and 2005, the Bancorp recognized pretax gains of $81 million and $123 million, respectively, on the sales of residential mortgage loans, home equity lines of credit and student loans. Total proceeds from the loan sales in 2006 and 2005 were $9.4 billion and $9.7 billion, respectively.

Initial carrying values of retained interests recognized during 2006 and 2005 were as follows:

($ in millions)	2006	2005
Mortgage servicing assets	**$ 135**	134
Other consumer and commercial servicing assets	**1**	1

Consumer residual interests	5

Key economic assumptions used in measuring the Bancorp s servicing rights and residual interests during 2006 and 2005 were as follows:

		2006				**2005**			
($ in million)	**Rate**	**Weighted-Average Life (in years)**	**Prepayment Speed Assumption**	**Discount Rate**	**Weighted-Average Default Rate**	**Weighted-Average Life (in years)**	**Prepayment Speed Assumption**	**Discount Rate**	**Weighted-Average Default Rate**
Residential mortgage loans:									
Servicing assets	Fixed	**6.8**	**13.7%**	**10.4%**	**N/A**	7.1	12.6%	10.3%	N/A
Servicing assets	Adjustable	**2.7**	**38.6**	**11.7**	**N/A**	3.7	27.5	11.6	N/A
Home equity lines of credit:									
Servicing assets	Adjustable	**1.8**	**37.5**	**11.7**	**N/A**	2.4	35	11.7	N/A
Residual interest	Adjustable	**1.6**	**37.5**	**11.7**	**.35%**	2.0	35	11.7	.35%

Based on historical credit experience, expected credit losses for servicing rights have been deemed immaterial. At December 31, 2006, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

				Prepayment Speed Assumption			**Residual Servicing Cash Flows**			**Weighted-Average Default**		
					Impact of Adverse Change on Fair Value		**Discount**	**Impact of Adverse Change on Fair Value**			**Impact of Adverse Change on Fair Value**	
($ in millions)	**Rate**	**Fair Value**	**Weighted-Average Life (in years)**	**Rate**	**10%**	**20%**	**Rate**	**10%**	**20%**	**Rate**	**10%**	**20%**
Residential mortgage loans:												
Servicing assets	Fixed	$ 483	7.4	10.9%	$ 20	$ 39	10.3%	$ 18	$ 35	%	$	$
Servicing assets	Adjustable	45	3.7	26.5	3	6	10.9	1	2			
Home equity line of credit:												
Servicing assets	Adjustable	3	1.2	40.0		1	11.7					
Residual interest	Adjustable	15	1.5	40.0	1	2	11.7			.35		
Automotive loans:												
Servicing assets	Fixed	1	0.3	1.55			12					
Residual interest	Fixed	6	0.7	1.55			12			1.25		

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These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions typically cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the previous table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

In addition to the retained interests listed previously, the Bancorp retains certain investment grade securities from securitizations. The fair value of these retained securities was $15 million and $30 million at December 31, 2006 and 2005, respectively. The securities are valued using quoted market prices.

The following table provides a summary of the total loans and leases managed by the Bancorp, including loans securitized for the years ended December 31:

	Balance		Balance of Loans 90 Days or More Past Due		Net Credit Losses	
($ in millions)	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Commercial loans	**$ 20,725**	19,299	**$ 38**	20	**$ 107**	75
Commercial mortgage	**10,405**	9,188	**17**	8	**24**	9
Commercial leases	**3,841**	3,698	**2**	1	**(1)**	37
Construction loans	**6,847**	7,037	**18**	11	**8**	4
Residential mortgage	**9,263**	8,353	**57**	49	**22**	19
Other consumer loans	**23,905**	22,987	**79**	65	**154**	147
Consumer leases	**1,073**	1,595	**2**	3	**5**	14
Total loans and leases managed and securitized *(a)*	**76,059**	72,157	**$ 213**	157	**$ 319**	305
Less:						
Loans securitized	**556**	928				
Loans held for sale	**1,150**	1,304				
Total portfolio loans and leases	**$ 74,353**	69,925				

(a) Excluding securitized assets that the Bancorp continues to service but with which it has no other continuing involvement.

Static pool credit losses are calculated by aggregating the actual and projected future credit losses for a securitization and dividing these losses by the original balance in each pool of assets. For the home equity lines of credit securitized in 2003, the static pool credit losses were .80% and .70% as of December 31, 2006 and 2005, respectively. For the automotive loans securitized in 2004, the static pool credit losses were 1.09% and 1.00% as of December 31, 2006 and 2005, respectively.

During 2006 and 2005, the Bancorp transferred, subject to credit recourse, certain primarily floating-rate, short-term, investment grade commercial loans to an unconsolidated QSPE that is wholly owned by an independent third-party. Generally, the loans transferred provide a lower yield due to their investment grade nature, and therefore transferring these loans to the QSPE allows the Bancorp to reduce its exposure to these lower yielding loan assets while maintaining the customer relationships. The Bancorp retains servicing and receives monthly servicing fees. At December 31, 2006 and 2005, the outstanding balance of loans transferred was $3.4 billion and $2.8 billion, respectively. These loans may be transferred back to the Bancorp upon the occurrence of an event specified in the legal documents that established the QSPE. These events include borrower default on the loans transferred, bankruptcy preferences initiated against underlying borrowers and ineligible loans transferred by the Bancorp to the QSPE. These commercial loans are transferred at par with no gain or loss recognized. The Bancorp receives rights to future cash flows arising after the investors in the securitization trust have received the return for which they contracted. No value has been assigned to this retained future stream of fees to be received as the fair value of this right was deemed immaterial due to the short-term servicing period of the assets transferred and the small spread provided by the transferred loans. As of December 31, 2006, the $3.4 billion balance of outstanding loans had a weighted-average remaining maturity of 2.7 years.

During 2004, the Bancorp securitized and sold $750 million in automotive loans to an unconsolidated QSPE that is wholly owned by an independent third party. The Bancorp retained servicing rights and receives a servicing fee based on a percentage of the outstanding balance. Additionally, the Bancorp retained a subordinated tranche of securities and rights to future cash flows arising after investors in the securitization trust have received the return for which they contracted. The investors and the securitization trust have no recourse to the Bancorp s other assets for failure of debtors to pay when due. The Bancorp s retained interest is subordinate to investor s interests and its value is subject to credit, prepayment and interest rate risks on the sold automotive loans. As of December 31, 2006, the remaining balance of sold automotive loans was $146 million.

During 2003, the Bancorp securitized and sold $903 million in home equity lines of credit to an unconsolidated QSPE that is wholly owned by an independent third party. The Bancorp retained servicing rights and receives a servicing fee based on a percentage of the outstanding balance. Additionally, the Bancorp retained rights to future cash flows arising after investors in the securitization trust have received the return for which they contracted. The investors and the securitization trust have no recourse to the Bancorp s other assets for failure of debtors to pay when due. The Bancorp s retained interest is subordinate to investor s interests and its value is subject to credit, prepayment and interest rate risks on the sold home equity lines of credit. During 2006, pursuant to the terms of the sales and servicing agreement, $39 million in fixed-rate home equity line of credit balances were put back to the Bancorp. As of December 31, 2006, the remaining balance of sold home equity lines of credit was $374 million.

The Bancorp had the following cash flows with unconsolidated QSPEs during 2006 and 2005:

($ in millions)	**2006**	**2005**
Proceeds from transfers, including new securitizations	**$ 1,618**	1,680
Proceeds from collections reinvested in revolving-period securitizations	**97**	132
Fees received	**35**	32

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21. INCOME TAXES

The Bancorp and its subsidiaries file a consolidated Federal income tax return. The following is a summary of applicable income taxes included in the Consolidated Statements of Income at December 31:

($ in millions)	2006	2005	2004
Current income taxes:			
U.S. income taxes	**$ 457**	654	691
State and local income taxes	**7**	21	34
Total current tax	**464**	675	725
Deferred income taxes:			
U.S. income taxes	**(24)**	(7)	(12)
State and local income taxes	**3**	(9)	(1)
Total deferred taxes	**(21)**	(16)	(13)
Applicable income taxes	**$ 443**	659	712

Deferred income taxes are included as a component of accrued taxes, interest and expenses in the Consolidated Balance Sheets and are comprised of the following temporary differences at December 31:

($ in millions)	2006	2005
Deferred tax assets:		
Allowance for credit losses	**$ 270**	260
Deferred compensation	**160**	149
Other comprehensive income	**98**	225
State net operating losses	**112**	129
Other	**117**	127
Total deferred tax assets	**757**	890
Deferred tax liabilities:		
Lease financing	**1,750**	1,786
State deferred taxes	**189**	203
Bank premises and equipment	**70**	61
Mortgage servicing rights	**124**	99
Other	**173**	186
Total deferred tax liabilities	**2,306**	2,335
Total net deferred tax liability	**$ 1,549**	1,445

A reconciliation between the statutory U.S. income tax rate and the Bancorp s effective tax rate for the years ended December 31:

	2006	2005	2004

Statutory tax rate	**35.0%**	35.0	35.0
Increase (decrease) resulting from:			
State taxes, net of federal benefit	**.4**	.4	1.0
Tax-exempt income	**(2.8)**	(2.3)	(2.0)
Credits	**(3.9)**	(2.3)	(1.7)
Dividends on subsidiary preferred stock	**(2.2)**	(1.7)	(1.7)
Other, net	**.7**	.8	1.2
Effective tax rate	**27.2%**	29.9	31.8

Retained earnings at December 31, 2006 includes $157 million in allocations of earnings for bad debt deductions of former thrift subsidiaries for which no income tax has been provided. Under current tax law, if certain of the Bancorp s subsidiaries use these bad debt reserves for purposes other than to absorb bad debt losses, they will be subject to Federal income tax at the current corporate tax rate.

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22. RETIREMENT AND BENEFIT PLANS

The following tables summarize the defined benefit retirement plans as of and for the years ended December 31:

Plans With an Overfunded Status		
($ in millions)	**2006**	**2005**
Fair value of plan assets at January 1	**$ 238**	196
Actual return on assets	**26**	11
Contributions	**15**	50
Settlement	**(20)**	(17)
Benefits paid	**(7)**	(6)
Plan merger		4
Fair value of plan assets at December 31	**$ 252**	238
Projected benefit obligation at January 1	**$ 220**	216
Service cost	**1**	1
Interest cost	**12**	12
Settlement	**(20)**	(16)
Actuarial loss	**7**	8
Benefits paid	**(7)**	(6)
Plan merger		5
Projected benefit obligation at December 31	**$ 213**	220
Overfunded projected benefit obligation recognized in the Consolidated Balance Sheets as an asset *(a)*	**$ 39**	

Plans With an Underfunded Status		
($ in millions)	**2006**	**2005**
Fair value of plan assets at January 1	**$**	5
Actual return on assets		
Contributions	**3**	13
Settlement		(11)
Benefits paid	**(3)**	(3)
Plan merger		(4)
Fair value of plan assets at December 31	**$**	
Projected benefit obligation at January 1	**$ 38**	38
Service cost	**1**	2
Interest cost		(10)
Settlement		10
Actuarial loss	**1**	6
Benefits paid	**(3)**	(3)
Plan merger		(5)
Projected benefit obligation at December 31	**$ 37**	38
Unfunded projected benefit obligation recognized in the Consolidated Balance Sheets as a liability *(a)*	**($ 37)**	

(a) *SFAS No. 158 was implemented prospectively at December 31, 2006. As a result, the Bancorp recognized the overfunded and unfunded projected benefit obligation of its pension plans as an asset and liability, respectively, in the Consolidated Balance Sheet as of December 31, 2006.*

Amounts recognized in accumulated other comprehensive income consist of:

($ in millions)	**2006**
Net actuarial loss	**$ 89**
Net prior service cost	**3**
Total	**$ 92**

The Bancorp implemented SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88 106, and 132(R) at December 31, 2006. SFAS No. 158 requires the funded status of pension plans to be recorded in the balance sheet as an asset for plans with an overfunded status and a liability for plans with an underfunded status. The Bancorp recognized the overfunded and underfunded status of its pension plans as an asset and liability, respectively, in the Consolidated Balance Sheet as of December 31, 2006.

The Bancorp s qualified defined benefit plan is currently overfunded. This plan s benefits were frozen in 1998, except for grandfathered employees. The Bancorp s retirement plans with an underfunded status are nonqualified, supplemental retirement plans, which are funded on an as needed basis. A majority of these plans were obtained in acquisitions from prior years.

The following table summarizes the incremental effect of applying SFAS No. 158 on individual line items in the Consolidated Balance Sheet as of December 31, 2006:

($ in millions)	**Before Application of SFAS No. 158**	**Adjustment**	**After Application of SFAS No. 158**
Financial statement line item:			
Prepaid benefit cost	$ 124	(85)	39
Deferred tax asset	3	30	33
Total assets	127	(55)	72
Accrued benefit liability	38	(1)	37
Total liabilities	38	(1)	37
Accumulated other comprehensive income	(5)	(54)	(59)
Total shareholders equity	(5)	(54)	(59)

The following tables summarize net periodic pension cost and other changes in plan assets and benefit obligations recognized in other comprehensive income for the years ended December 31:

($ in millions)	**2006**	**2005**	**2004**
Components of net periodic pension cost:			
Service cost	**$ 1**	1	1
Interest cost	**13**	14	15
Expected return on assets	**(19)**	(18)	(18)
Amortization and deferral of transition amount			(2)

Amortization of actuarial loss	**9**	8	9
Amortization of net prior service cost	**1**		1
Settlement	**8**	9	10
Net periodic pension cost	**$ 13**	14	16

($ in millions)	**2006**
Other changes in plan assets and benefit obligations recognized in other comprehensive income:	
Net actuarial loss	**$ 89**
Prior service cost	**3**
Total recognized in other comprehensive income	**92**
Amortization of actuarial loss	**9**
Amortization of prior service cost	**1**
Total recognized in net periodic pension cost and other comprehensive income	**$ 102**

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic pension cost during 2007 are $7 million and $1 million, respectively.

The plan assumptions are evaluated annually and are updated as necessary. The discount rate assumption reflects the yield on a portfolio of high quality fixed-income instruments that have a similar duration to the plan s liabilities. The expected long-term rate of return assumption reflects the average return expected on the assets invested to provide for the plan s liabilities. In determining the expected long-term rate of return, the Bancorp evaluated actuarial and economic inputs, including long-term inflation rate assumptions and broad equity and bond indices long-term return projections, as well as actual long-term historical plan performance.

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The following table summarizes the plan assumptions for the years ended December 31:

Weighted-average assumptions	2006	2005	2004
For disclosure:			
Discount rate	5.80%	5.375	5.85
Rate of compensation increase	5.00	5.00	5.10
Expected return on plan assets	8.48	8.45	8.00
For measuring net periodic pension cost:			
Discount rate	5.375	5.65-5.85	6.00
Rate of compensation increase	5.00	5.00	5.00
Expected return on plan assets	8.45	8.00	8.75

Lowering both the expected rate of return on the plan and the discount rate by 0.25% would have increased the 2006 pension expense by approximately $1 million.

Plan assets consist primarily of common trust and mutual funds (equities and fixed income) and Bancorp common stock. As of December 31, 2006 and 2005, $156 million and $178 million, respectively, of plan assets were managed by Fifth Third Bank, a subsidiary of the Bancorp, through common trust and mutual funds and included $15 million, respectively, of Bancorp common stock. The following table provides the Bancorp s weighted-average asset allocations by asset category for 2006 and 2005:

Weighted-average asset allocation	2006	2005
Equity securities	**69%**	69
Bancorp common stock	**6**	6
Total equity securities	**75**	75
Total fixed income securities	**22**	23
Cash	**3**	2
Total	**100%**	100

The Bancorp s policy for the investment of Plan assets is to employ investment strategies that achieve a weighted-average target asset allocation of 70% to 80% in equity securities, 20% to 25% in fixed income securities and up to five percent in cash. Plan assets are not expected to be returned to the Bancorp during 2007.

The accumulated benefit obligation for all defined benefit plans was $249 million and $254 million at December 31, 2006 and December 31, 2005, respectively. At December 31, 2006 and 2005, amounts relating to the Bancorp s defined benefit plans with an accumulated benefit obligation exceeding assets were as follows:

($ in millions)	2006	2005
Projected benefit obligation	**$ 37**	38
Accumulated benefit obligation	**38**	38
Fair value of plan assets		

Based on the actuarial assumptions, the Bancorp does not expect to contribute to the Plan in 2007. Estimated pension benefit payments, which reflect expected future service, are $20 million in 2007, $20 million in 2008, $19 million in 2009, $20 million in 2010 and $18 million in 2011. The total estimated payments for the years 2012 through 2016 is $83 million.

The Bancorp s profit sharing plan expense was $60 million for 2006, $62 million for 2005 and $69 million for 2004. Expenses recognized during the years ended December 31, 2006, 2005 and 2004 for matching contributions to the Bancorp s defined contribution savings plans were $35 million, $33 million and $28 million, respectively.

23. EARNINGS PER SHARE

Reconciliation of earnings per share to earnings per diluted share for the years ended December 31:

		2006			2005			2004	
(in millions, except per share data)	**Income**	**Average Shares**	**Per Share Amount**	**Income**	**Average Shares**	**Per Share Amount**	**Income**	**Average Shares**	**Per Share Amount**
EPS									
Income before cumulative effect	**$ 1,184**			$ 1,549			$ 1,525		
Net income available to common shareholders before cumulative effect *(a)*	**1,184**	**555**	**$ 2.13**	1,548	554	$ 2.79	1,524	561	$ 2.72
Cumulative effect of change in accounting principle, net of tax	**4**		**.01**						
Net income available to common shareholders *(a)*	**$ 1,188**	**555**	**$ 2.14**	$ 1,548	554	$ 2.79	$ 1,524	561	$ 2.72
Diluted EPS									
Net income available to common shareholders before cumulative effect	**$ 1,184**	**555**		$ 1,548	554		$ 1,524	561	
Effect of dilutive securities:									
Stock based awards		**2**			4			7	
Convertible preferred stock *(b)*									
Income plus assumed conversions before cumulative effect	**1,184**	**557**	**$ 2.12**	1,549	558	$ 2.77	1,525	568	$ 2.68
Cumulative effect of change in accounting principle, net of tax	**4**		**.01**						
Net income available to common shareholders plus assumed conversions	**$ 1,188**	**557**	**$ 2.13**	$ 1,548	558	$ 2.77	$ 1,525	568	$ 2.68

(a) Dividends on preferred stock are $.740 million for the years ended December 31, 2006, 2005 and 2004.

(b) The additive effect to income from dividends on convertible preferred stock is $.580 million and the average share dilutive effect from convertible preferred stock is ..308 million shares for the years ended December 31, 2006, 2005 and 2004.

During the first quarter of 2006, the Bancorp recognized a benefit for the cumulative effect of change in accounting principle of $4 million, net of $2 million of tax, related to the adoption of SFAS 123(R). The benefit recognized relates to the Bancorp s estimate of forfeiture experience to be realized for all unvested stock-based awards outstanding.

Options to purchase 33.1 million, 28.1 million and 16.2 million shares outstanding at December 31, 2006, 2005 and 2004, respectively, were not included in the computation of net income per diluted share because the exercise price of these options were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts and estimated fair values for financial instruments as of December 31:

($ in millions)	2006 Carrying Amount	2006 Fair Value	2005 Carrying Amount	2005 Fair Value
Financial assets:				
Cash and due from banks	**$ 2,737**	**2,737**	$ 3,078	3,078
Available-for-sale and other securities	**11,053**	**11,053**	21,924	21,924
Held-to-maturity securities	**356**	**356**	389	389
Trading securities	**187**	**187**	117	117
Other short-term investments	**809**	**809**	158	158
Loans held for sale	**1,150**	**1,152**	1,304	1,305
Portfolio loans and leases, net	**73,582**	**73,660**	69,181	69,039
Derivative assets	**309**	**309**	192	192
Bank owned life insurance assets	**1,949**	**1,949**	1,865	1,865
Financial liabilities:				
Deposits	**69,380**	**69,371**	67,434	67,361
Federal funds purchased	**1,421**	**1,421**	5,323	5,323
Other short-term borrowings	**2,796**	**2,796**	4,246	4,246
Long-term debt	**12,558**	**12,762**	15,227	15,458
Derivative liabilities	**369**	**369**	269	269
Short positions	**29**	**29**	29	29
Other financial instruments:				
Commitments to extend credit	**75**	**75**	69	69
Letters of credit	**23**	**23**	13	13

Fair values for financial instruments, which were based on various assumptions and estimates as of a specific point in time, represent liquidation values and may vary significantly from amounts that will be realized in actual transactions. In addition, certain non-financial instruments were excluded from the fair value disclosure requirements. Therefore, the fair values presented in the table above should not be construed as the underlying value of the Bancorp.

The following methods and assumptions were used in determining the fair value of selected financial instruments:

Short-term financial assets and liabilities: For financial instruments with a short-term or no stated maturity, prevailing market rates and limited credit risk, carrying amounts approximate fair value. Those financial instruments include cash and due from banks, other short-term investments, certain deposits (demand, interest checking, savings and money market), federal funds purchased and other short-term borrowings.

Available-for-sale, held-to-maturity, trading and other securities, including short positions: Fair values were based on prices obtained from an independent nationally recognized pricing service.

Loans held for sale: The fair value of loans held for sale was estimated based on outstanding commitments from investors or current investor yield requirements.

Portfolio loans and leases, net: Fair values were estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Derivative assets and derivative liabilities Fair values were based on the estimated amount the Bancorp would receive or pay to terminate the derivative contracts, taking into account the current interest rates and the creditworthiness of the counterparties. The fair values represent an asset or liability at December 31, 2006 and 2005.

Bank owned life insurance assets: Fair values of insurance policies owned by the Bancorp were based on the insurance contract s cash surrender value, net of any policy loans.

Deposits: Fair values for other time, certificates of deposit $100,000 and over and foreign office were estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Long-term debt: Fair value of long-term debt was based on quoted market prices, when available, or a discounted cash flow calculation using prevailing market rates for borrowings of similar terms.

Commitments to extend credit: Fair values of loan commitments were based on estimated probable credit losses.

Letters of credit: Fair values of letters of credit were based on unamortized fees on the letters of credit.

25. BUSINESS COMBINATIONS

On January 1, 2005, the Bancorp acquired in a merger 100% of the outstanding stock of First National Bankshares, Inc. (First National), a bank holding company headquartered in Naples, Florida. First National operated 77 full-service banking centers located primarily in Orlando, Tampa, Sarasota, Naples and Fort Myers. The acquisition of First National allowed the Bancorp to increase its presence in the rapidly expanding Florida market.

Under the terms of the transaction, each share of First National common stock was exchanged for .5065 shares of the Bancorp s common stock, resulting in the issuance of 30.6 million shares of common stock. The common stock issued to effect the transaction was valued at $47.30 per share, the closing price of the Bancorp s common stock on the previous trading day, for a total transaction value of $1.5 billion. The total purchase price also included the fair value of stock-based awards issued in exchange for stock-based awards held by First National employees, for which the aggregate fair value was $63 million.

The assets and liabilities of First National were recorded on the Bancorp s Consolidated Balance Sheet at their respective fair values as of the closing date. The results of First National s operations were included in the Bancorp s Consolidated Statements of Income from the date of acquisition. In addition, the Bancorp realized charges against its earnings for acquisition related expenses of $8 million during 2005. The acquisition related expenses consisted primarily of travel and relocation costs, printing, closure of duplicate facilities, supplies and other costs associated with the conversion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The transaction resulted in total goodwill and intangible assets of $1.3 billion based upon the purchase price, the fair values of the acquired assets and assumed liabilities and applicable purchase accounting adjustments. Of this total intangibles amount, $85 million was allocated to core deposit intangibles, $7 million was allocated to customer lists and $13 million was allocated to noncompete agreements. The core deposit intangible and the customer lists are being amortized using an accelerated method over 10 years. The noncompete agreements are being amortized using the straight-line method over the duration of the agreements. The remaining $1.2 billion of intangible assets was recorded as goodwill and is not being amortized. Goodwill recognized in the First National acquisition is not deductible for income tax purposes.

On June 11, 2004, the Bancorp completed the acquisition of Franklin Financial, a bank holding company located in the Nashville, Tennessee metropolitan market.

Under the terms of the transaction, each share of Franklin Financial common stock was exchanged for .5933 shares of the Bancorp s common stock, resulting in the issuance of 5.1 million shares of common stock. The common stock issued to effect the transaction was valued at $55.52 per share for a total transaction value of $317 million. The total purchase price also included the fair value of stock-based awards issued in exchange for stock-based awards held by Franklin employees, for which the aggregate fair value was $36 million.

The assets and liabilities of Franklin Financial were recorded on the Bancorp s Consolidated Balance Sheet at their respective fair values as of the closing date. The results of Franklin Financial s operations were included in the Bancorp s Consolidated Statements of Income from the date of acquisition. The transaction resulted in total intangible assets of $281 million based upon the purchase price, the fair values of the acquired assets and assumed liabilities and applicable purchase accounting adjustments. Of this total intangibles amount, $7 million was allocated to core deposit intangibles, $6 million was allocated to customer lists and $2 million was allocated to noncompete agreements. The core deposit intangible and the customer lists are being amortized using an accelerated method over seven and five years, respectively. The noncompete agreements are being amortized using the straight-line method over the duration of the agreements. The remaining $266 million of intangible assets was recorded as goodwill and is not being amortized. Goodwill recognized in the Franklin Financial acquisition is not deductible for income tax purposes.

The pro forma effect of the financial results of First National and Franklin Financial included in the results of operations subsequent to the date of acquisition were not material to the Bancorp s financial condition and operating results for the periods presented.

26. CERTAIN REGULATORY REQUIREMENTS AND CAPITAL RATIOS

The principal source of income and funds for the Bancorp (parent company) are dividends from its subsidiaries. During 2006, the amount of dividends the bank subsidiaries could pay to the Bancorp without prior approval of regulatory agencies was limited to their 2006 eligible net profits, as defined, and the adjusted retained 2005 and 2004 net income of those subsidiaries.

The Bancorp s subsidiary banks must maintain cash reserve balances when total reservable deposit liabilities are greater than the regulatory exemption. These reserve requirements may be satisfied with vault cash and noninterest-bearing cash balances on reserve with a Federal Reserve Bank. In 2006 and 2005, the subsidiary banks were required to maintain average cash reserve balances of $289 million and $211 million, respectively.

The FRB adopted guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act of 1956, as amended. These guidelines include quantitative measures that assign risk weightings to assets and off-balance sheet items, as well as define and set minimum regulatory capital requirements. All bank holding companies are required to maintain core capital (Tier I) of at least 4% of risk-weighted assets and off-balance sheet items (Tier I capital ratio), total capital of at least 8% of risk-weighted assets and off-balance sheet items (Total risk-based capital ratio) and Tier I capital of at least 3% of adjusted quarterly average assets (Tier I leverage ratio). Failure to meet the minimum capital requirements can initiate certain actions by regulators that could have a direct material effect on the Consolidated Financial Statements of the Bancorp.

Tier I capital consists principally of shareholders equity including Tier I qualifying subordinated debt but excluding unrealized gains and losses on available-for-sale securities and unrecognized pension actuarial gains and losses and prior service cost, less goodwill and certain other intangibles. Tier II capital consists principally of perpetual and trust preferred stock that is not eligible to be included as Tier I capital, term subordinated debt, intermediate-term preferred stock and, subject to limitations, general allowances for loan and lease losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics. Average assets for this purpose does not include goodwill and any other intangible assets and investments that the FRB determines should be deducted from Tier I capital.

Both the FRB and the Office of Comptroller of the Currency (OCC) have issued regulations regarding the capital adequacy of subsidiary banks. These requirements are substantially similar to those adopted by the FRB regarding bank holding companies, as described above. In addition, the federal banking agencies have issued substantially similar regulations to implement the system of prompt corrective action established by Section 38 of the Federal Deposit Insurance Act. Under the regulations, a bank generally shall be deemed to be well-capitalized if it has a Total risk-based capital ratio of 10% or more, a Tier I capital ratio of 6% or more, a Tier I leverage ratio of 5% or more and is not subject to any written capital order or directive. If an institution becomes undercapitalized, it would become subject to significant additional oversight, regulations and requirements as mandated by the Federal Deposit Insurance Act. The Bancorp and each of its subsidiary banks had Tier I, Total risk-based capital and Tier I leverage ratios above the well-capitalized levels at December 31, 2006 and 2005. As of December 31, 2006, the most recent notification from the FRB categorized the Bancorp and each of its subsidiary banks as well-capitalized under the regulatory framework for prompt corrective action. To continue to qualify for financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999, the Bancorp s subsidiary banks must, among other things, maintain well capitalized capital ratios.

U.S. bank regulatory authorities and international bank supervisory organizations, principally the Basel Committee on Banking Supervision, are currently considering changes to the risk-based capital adequacy framework for banks, including emphasis on credit, market and operational risk components, which ultimately could affect the appropriate capital guidelines for bank holding companies such as the Bancorp.

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Capital and risk-based capital and leverage ratios for the Bancorp and its significant subsidiary banks at December 31:

	2006		2005	
($ in millions)	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital (to risk-weighted assets):				
Fifth Third Bancorp (Consolidated)	**$ 11,385**	**11.07%**	$ 10,240	10.42%
Fifth Third Bank (Ohio)	**6,573**	**12.82**	6,237	12.61
Fifth Third Bank (Michigan)	**5,814**	**11.41**	5,352	10.98
Fifth Third Bank, N.A.	**216**	**11.78**	177	12.05
Tier I capital (to risk-weighted assets):				
Fifth Third Bancorp (Consolidated)	**8,625**	**8.39**	8,209	8.35
Fifth Third Bank (Ohio)	**5,336**	**10.41**	4,973	10.05
Fifth Third Bank (Michigan)	**5,341**	**10.48**	4,922	10.10
Fifth Third Bank, N.A.	**203**	**11.07**	167	11.33
Tier I leverage (to average assets):				
Fifth Third Bancorp (Consolidated)	**8,625**	**8.44**	8,209	8.08
Fifth Third Bank (Ohio)	**5,336**	**9.53**	4,973	8.77
Fifth Third Bank (Michigan)	**5,341**	**11.30**	4,922	10.75
Fifth Third Bank, N.A.	**203**	**12.52**	167	12.24

27. PARENT COMPANY FINANCIAL STATEMENTS

($ in millions)

Condensed Statements of Income (Parent Company Only)

For the years ended December 31	**2006**	**2005**	**2004**
Income			
Dividends from subsidiaries	**$ 605**	1,270	682
Interest on loans to subsidiaries	**46**	32	32
Other	**2**	1	1
Total income	**653**	1,303	715
Expenses			
Interest	**120**	77	15
Other	**22**	23	9
Total expenses	**142**	100	24
Income Before Income Taxes and Change in Undistributed Earnings of Subsidiaries	**511**	**1,203**	**691**
Applicable income taxes	**(35)**	(25)	1
Income Before Change in Undistributed Earnings of Subsidiaries	**546**	**1,228**	**690**
Increase in undistributed earnings of subsidiaries	**642**	321	835
Net Income	**$ 1,188**	1,549	1,525

Condensed Balance Sheets (Parent Company Only)

As of December 31	2006	2005
Assets		
Cash	**$ 909**	666
Loans to subsidiaries	**636**	529
Investment in subsidiaries	**11,735**	10,753
Goodwill	**137**	137
Other assets	**37**	36
Total assets	**$ 13,454**	12,121
Liabilities		
Commercial paper	**$ 7**	2
Accrued expenses and other liabilities	**259**	242
Long-term debt	**3,166**	2,431
Total Liabilities	**3,432**	2,675
Shareholders Equity	**10,022**	9,446
Total Liabilities and Shareholders Equity	**$ 13,454**	$ 12,121

Condensed Statements of Cash Flows (Parent Company Only)

For the years ended December 31	2006	2005	2004
Operating Activities			
Net income	**$ 1,188**	1,549	1,525
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (benefit) for deferred income taxes	**1**	(1)	(1)
Increase in other assets	**(1)**	(4)	(24)
Increase (decrease) in accrued expenses and other liabilities	**17**	(29)	(84)
Increase in undistributed earnings of subsidiaries	**(642)**	(321)	(835)
Other, net	**(14)**	1	
Net Cash Provided by Operating Activities	**549**	1,195	581
Investing Activities			
Capital contribution to subsidiaries	**(25)**		
(Increase) decrease in loans to subsidiaries	**(107)**	1,811	(759)
Net Cash (Used in) Provided by Investing Activities	**(132)**	1,811	(759)
Financing Activities			
Increase (decrease) in other short-term borrowings	**5**	(26)	24
Repayment of long-term debt	**(13)**		
Proceeds from issuance of long-term debt	**748**		1,749
Payment of cash dividends	**(867)**	(794)	(704)
Exercise of stock-based awards	**43**	96	89
Purchases of treasury stock	**(82)**	(1,649)	(987)
Other	**(8)**		
Net Cash (Used in) Provided by Financing Activities	**(174)**	(2,373)	171

Increase (Decrease) in Cash	**243**	633	(7)
Cash at Beginning of Year	**666**	33	40
Cash at End of Year	**$ 909**	666	33

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. SEGMENTS

The Bancorp s principal activities include Commercial Banking, Branch Banking, Consumer Lending, Investment Advisors and Processing Solutions. During the first quarter of 2006, the Bancorp began reporting its Retail line of business as two business segments, Branch Banking and Consumer Lending. All prior year information has been updated to reflect this presentation. Commercial Banking offers banking, cash management and financial services to large and middle-market businesses, government and professional customers. Branch Banking provides a full range of deposit and loans and lease products to individuals and small businesses through retail locations. Consumer Lending includes the Bancorp s mortgage, home equity and other indirect lending activities. Investment Advisors provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. 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 Other/Eliminations column includes the unallocated portion of the investment portfolio, certain non-deposit funding, unassigned equity and certain support activities and other items not attributed to the business segments.

Results of the Bancorp s business segments are presented based on its management structure and management accounting practices. The structure and 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. Revisions to the Bancorp s methodologies are applied on a retroactive basis. During the fourth quarter of 2006, the Bancorp changed the application of the provision for loan and lease losses to the segments to include only actual net charge-offs.

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 servicing 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. During 2006, the Bancorp made certain changes to the average duration of indeterminate-lived deposits and corresponding changes to the FTP crediting rates assigned to those deposits. This change more closely aligns the crediting rates to the expected economic benefit while continuing to insulate the segments from interest rate volatility. Prior year results are restated and presented on a comparable basis. The net impact of the FTP methodology is included in Other/Eliminations.

The financial results of the business segments include allocations for shared services and headquarter 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. The financial information for each segment is reported on the basis used internally by the Bancorp s management to evaluate performance and allocate resources. The allocation has been consistently applied for all periods presented. Revenues from affiliated transactions are typically charged at rates available to and transacted with unaffiliated customers. Results of operations and average assets by segment for each of the three years ended December 31 are:

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	Other/ Eliminations	Total
2006							
Net interest income *(a)*	$ 1,254	1,290	380	125	33	(183)	2,899
Provision for loan and lease losses	105	101	94	3	10	30	343
Net interest income after provision for loan and lease losses	1,149	1,189	286	122	23	(213)	2,556
Noninterest income:							
Electronic payment processing revenue	13	195		1	694	(46)	857
Service charges on deposits	147	358		7	5		517
Mortgage banking net revenue		5	148	2			155
Investment advisory revenue	3	87		367		(90)	367
Corporate banking revenue	304	12		2	1	(1)	318
Other noninterest income	48	106	78	7	4	57	300
Securities gains (losses), net					78	(442)	(364)
			3				3

Securities gains, net non qualifying hedges on mortgage servicing rights								
Total noninterest income		515	763	229	386	782	(522)	2,153
Noninterest expense:								
Salaries, wages and incentives		196	353	68	143	58	356	1,174
Employee benefits		44	98	33	29	13	75	292
Equipment expense		2	32	1	1	10	76	122
Net occupancy expense		14	121	8	10	3	89	245
Other noninterest expense		505	468	193	200	443	(586)	1,223
Total noninterest expense		761	1,072	303	383	527	10	3,056
Income before income taxes and cumulative effect		903	880	212	125	278	(745)	1,653
Applicable income taxes *(a)*		252	310	75	44	98	(310)	469
Income before cumulative effect		651	570	137	81	180	(435)	1,184
Cumulative effect of change in accounting principle, net of tax							4	4
Net income	$	651	570	137	81	180	(431)	1,188
Average assets	$	36,037	42,852	21,883	5,519	1,235	(2,288)	105,238

(a) Includes taxable-equivalent adjustments of $26 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	Other/ Eliminations	Total
2005							
Net interest income *(a)*	$ 1,190	1,251	397	131	28	(1)	2,996
Provision for loan and lease losses	97	91	90	4	18	30	330
Net interest income after provision for loan and lease losses	1,093	1,160	307	127	10	(31)	2,666
Noninterest income:							
Electronic payment processing revenue	13	164		1	612	(42)	748
Service charges on deposits	153	359		7	5	(2)	522
Mortgage banking net revenue		5	165	2		2	174
Investment advisory revenue	3	86		360		(91)	358
Corporate banking revenue	287	13		2	1	(4)	299
Other noninterest income	38	89	125	4	15	89	360
Securities gains (losses), net						39	39
Total noninterest income	494	716	290	376	633	(9)	2,500
Noninterest expense:							
Salaries, wages and incentives	194	355	66	141	44	333	1,133
Employee benefits	45	101	32	29	9	67	283
Equipment expense	1	28	1	1	3	71	105
Net occupancy expense	12	109	7	8	3	82	221
Other noninterest expense	465	437	244	206	403	(570)	1,185
Total noninterest expense	717	1,030	350	385	462	(17)	2,927
Income before income taxes	870	846	247	118	181	(23)	2,239
Applicable income taxes (a)	256	298	87	42	64	(57)	690
Net income	$ 614	548	160	76	117	34	1,549
Average assets	$ 32,247	40,291	20,238	4,569	1,140	4,391	102,876

(a) Includes taxable-equivalent adjustments of $31 million.

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	Other/ Eliminations	Acquisitions *(b)*	Total
2004								
Net interest income *(a)*	$ 1,104	1,247	421	129	29	298	(180)	3,048
Provision for loan and lease losses	82	70	84	2	10	26	(6)	268
Net interest income after provision for loan and lease losses	1,022	1,177	337	127	19	272	(174)	2,780
Noninterest income:								
Electronic payment processing revenue	9	132			524	(34)		631
Service charges on deposits	155	365		7	4	3	(19)	515
Mortgage banking net revenue	5	5	167	1				178
Investment advisory revenue	5	86		367		(95)		363

Corporate banking revenue	217	11		5	1	(6)		228
Other noninterest income	18	83	227	6	168	109	(24)	587
Securities gains (losses), net						(37)		(37)
Total noninterest income	409	682	394	386	697	(60)	(43)	2,465
Noninterest expense:								
Salaries, wages and incentives	159	310	75	122	42	408	(98)	1,018
Employee benefits	37	88	27	26	8	76	(1)	261
Equipment expense	1	29	2	1	4	48	(1)	84
Net occupancy expense	10	99	6	8	3	85	(26)	185
Other noninterest expense	403	393	301	211	350	(188)	(46)	1,424
Total noninterest expense	610	919	411	368	407	429	(172)	2,972
Income before income taxes	821	940	320	145	309	(217)	(45)	2,273
Applicable income taxes (a)	258	320	109	49	105	(60)	(33)	748
Net income	$ 563	620	211	96	204	(157)	(12)	1,525
Average assets	$ 28,377	38,987	18,831	3,881	998	9,498	(5,676)	94,896

(a) *Includes taxable-equivalent adjustments of $36 million.*

(b) *In acquisitions accounted for under the purchase method, management pools historical results to improve comparability with the current period. The adjusted results of First National (excluding the divested First National insurance business) have been included in the segments and are eliminated in the Acquisitions column.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to the issuance of the Bancorp s 2006 Consolidated Financial Statements, the Bancorp determined that its Consolidated Statements of Cash Flows contained errors in the classification of certain loan activities. As a result, Bancorp has restated the accompanying Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004.

The restatement resulted from the misclassification of cash flows from the sale of residential mortgage loans originally held for investment, which had been inappropriately classified as operating activities, and cash flows from commercial loans originated to be sold, which had been inappropriately classified as investing activities. In accordance with Statement of Financial Accounting Standards No. 102, Statement of Cash Flows Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale, cash flows from the sale of residential mortgage loans originally held for investment should have been classified as investing activities, rather than operating activities and cash flows from commercial loans originated to be sold, should have been classified as operating activities, rather than investing activities. Accordingly, the restatement affects the classification of these activities and the subtotals of cash flows from operating and investing activities presented in the affected Consolidated Statements of Cash Flows, but it has no impact on the Net Increase (Decrease) in Total Cash and Due from Banks set forth in the Consolidated Statements of Cash Flows for any of the previously reported periods. The restatement does not affect the Bancorp s Consolidated Statements of Income, Consolidated Balance Sheets or Consolidated Statements of Changes in Stockholders Equity for any period. Accordingly, the Bancorp s historical revenues, net income, earnings per share, total assets and regulatory capital remain unchanged.

The effects of the restatement on the Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004 are reflected in the following table.

For the year ended December 31 ($ in millions)	2006	2005	2004
Originally Reported:			
Loans originated for sale, net of repayments	$ (7,172)	(7,084)	(4,788)
Proceeds from sales of loans held for sale	9,352	9,697	6,824
Net Cash Provided by Operating Activities	3,493	4,180	3,486
Net increase in loans and leases	(6,644)	(9,896)	(7,749)
Proceeds from sale of loans			
Net Cash Provided by (Used in) Investing Activities	3,198	(6,244)	(3,728)
As Restated:			
Loans originated for sale, net of repayments	$ (8,671)	(8,683)	(5,253)
Proceeds from sales of loans held for sale	8,812	7,881	6,684
Net Cash Provided by Operating Activities	1,454	765	2,881
Net increase in loans and leases	(5,145)	(8,297)	(7,284)
Proceeds from sale of loans	540	1,816	140
Net Cash Provided by (Used in) Investing Activities	5,237	(2,829)	(3,123)
Difference:			
Loans originated for sale, net of repayments	$ (1,499)	(1,599)	(465)
Proceeds from sales of loans held for sale	(540)	(1,816)	(140)
Net Cash Provided by Operating Activities	(2,039)	(3,415)	(605)
Net increase in loans and leases	1,499	1,599	465

Proceeds from sale of loans	540	1,816	140
Net Cash Provided by (Used in) Investing Activities	2,039	3,415	605

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AVAILABILITY OF FINANCIAL INFORMATION

The Bancorp files reports with the SEC. Those reports include the annual report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K and proxy statements, as well as any amendments to those reports. The public may read and copy any materials the Bancorp files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Bancorp s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are accessible at no cost on the Bancorp s web site at www.53.com on a same day basis after they are electronically filed with or furnished to the SEC.

EXPLANATORY NOTE

The Bancorp is filing this Amendment to its Annual Report on Form 10-K for the year ended December 31, 2006, to reflect the restatement of the Bancorp s Consolidated Statements of Cash Flows, as discussed in Note 29 of the Notes to Consolidated Financial Statements contained in Part II, Item 8: Financial Statements and Supplementary Data. Except for Items 8 and 9A of Part II, no other information in the Form 10-K is being amended by this Amendment. This Amendment continues to speak as of the date of the original filing of the Form 10-K and the Bancorp has not updated the disclosure in the Amendment to speak as of any later date.

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ITEM 9A. CONTROLS AND PROCEDURES

The Bancorp conducted an evaluation, under the supervision and with the participation of the Bancorp s management, including the Bancorp s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bancorp s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Management also conducted a re-evaluation considering the facts and underlying circumstances that resulted in the restatement described in Note 29 of the Notes to Consolidated Financial Statements included in this report. Based on the foregoing, as of the end of the period covered by this report, the Bancorp s Chief Executive Officer and Chief Financial Officer concluded that the Bancorp s disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Bancorp files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and to provide reasonable assurance that information required to be disclosed by the Bancorp in such reports is accumulated and communicated to the Bancorp s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The management of Fifth Third Bancorp is responsible for establishing and maintaining adequate internal control, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Bancorp s Management assessed the effectiveness of the Bancorp s internal control over financial reporting as of December 31, 2006. Management s assessment is based on the criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and was designed to provide reasonable assurance that the Bancorp maintained effective internal control over financial reporting as of December 31, 2006. Based on this assessment, Management believes that the Bancorp maintained effective internal control over financial reporting as of December 31, 2006. The Bancorp s independent registered public accounting firm, that audited the Bancorp s consolidated financial statements included in this annual report, has issued an attestation report on our internal control over financial reporting as of December 31, 2006 and Bancorp Management s assessment of the internal control over financial reporting. This report appears on page 48 of the annual report.

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

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Financial Statements Filed	Pages
Report of Independent Registered Public Accounting Firm	49
Fifth Third Bancorp and Subsidiaries Consolidated Financial Statements	50-53
Notes to Consolidated Financial Statements	54-83a

The schedules for the Bancorp and its subsidiaries are omitted because of the absence of conditions under which they are required, or because the information is set forth in the Consolidated Financial Statements or the notes thereto.

The following lists the Exhibits to the Annual Report on Form 10-K.

3(i) Second Amended Articles of Incorporation of Fifth Third Bancorp, as amended. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

3(ii) Code of Regulations of Fifth Third Bancorp, as amended. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

4.1 Junior Subordinated Indenture, dated as of March 20, 1997 between Fifth Third Bancorp and Wilmington Trust Company, as Debenture Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.

4.2 Certificate Representing the 8.136% Junior Subordinated Deferrable Interest Debentures, Series A, of Fifth Third Bancorp. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.

4.3 Amended and Restated Trust Agreement, dated as of March 20, 1997 of Fifth Third Capital Trust II, among Fifth Third Bancorp, as Depositor, Wilmington Trust Company, as Property Trustee, and the Administrative Trustees named therein. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.

4.4 Certificate Representing the 8.136% Capital Securities, Series A, of Fifth Third Capital Trust I. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.

4.5 Guarantee Agreement, dated as of March 20, 1997 between Fifth Third Bancorp, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.

4.6 Agreement as to Expense and Liabilities, dated as of March 20, 1997 between Fifth Third Bancorp, as the holder of the Common Securities of Fifth Third Capital Trust I and Fifth Third Capital Trust II. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.

4.7 Old Kent Capital Trust I Floating Rate Subordinated Capital Income Securities. Incorporated by reference to the Exhibits to Old Kent Financial Corporation s Form S-4 Registration Statement filed July 19, 1997.

4.8 Form of Fifth Third Bancorp, as successor to Old Kent Financial Corporation, Floating Rate Junior Subordinated Debentures Due 2027. Incorporated by reference to the Exhibits to Old Kent Financial Corporation s Form S-4 Registration Statement filed July 19, 1997.

4.9 Indenture, dated as of January 31, 1997 between Fifth Third Bancorp, as successor to Old Kent Financial Corporation, and Bankers Trust Company. Incorporated by reference to the Exhibits to Old Kent Financial Corporation s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 5, 1997.

4.10 Guarantee Agreement, dated as of January 31, 1997, between Fifth Third Bancorp, as successor to Old Kent Financial Corporation. Incorporated by reference to the Exhibits to Old Kent Financial Corporation s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 1998.

4.11 Amended and Restated Declaration of Trust dated as of January 31, 1997, between Fifth Third Bancorp, as successor to Old Kent Financial Corporation, and Bankers Trust Company. Incorporated by reference to the Exhibits to Old Kent Financial Corporation s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 5, 1997.

4.12 Indenture, dated as of May 23, 2003, between Fifth Third Bancorp and Wilmington Trust Company, as Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2003.

4.13 Global security representing Fifth Third Bancorp s $500,000,000 4.50% Subordinated Notes due 2018. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2003.

4.14 First Supplemental Indenture, dated as of December 20, 2006, between Fifth Third Bancorp and Wilmington Trust Company, as Trustee.

4.15 Global security representing Fifth Third Bancorp s $500,000,000 5.45% Subordinated Notes due 2017.

4.16 Global security representing Fifth Third Bancorp s $250,000,000 Floating Rate Subordinated Notes due 2016.

10.1 Fifth Third Bancorp Unfunded Deferred Compensation Plan for Non-Employee Directors. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for fiscal year ended December 31, 1985. *

10.2 Fifth Third Bancorp 1990 Stock Option Plan. Incorporated by reference to Registrant s filing with the Securities and Exchange Commission as an exhibit to the Registrant s Registration Statement on Form S-8, Registration No. 33-34075. *

10.3 Fifth Third Bancorp 1987 Stock Option Plan. Incorporated by reference to Registrant s filing with the Securities and Exchange Commission as an exhibit to the Registrant s Registration Statement on Form S-8, Registration No. 33-13252. *

10.4 Indenture effective November 19, 1992 between Fifth Third Bancorp, Issuer and NBD Bank, N.A., Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 1992 and as Exhibit 4.1 to the Registrant s Registration Statement on Form S-3, Registration No. 33-54134.

10.5 Fifth Third Bancorp Master Profit Sharing Plan, as Amended. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *

10.6 Fifth Third Bancorp Incentive Compensation Plan. Incorporated by reference to Registrant s Proxy Statement dated February 19, 2004. *

10.7 Amended and Restated Fifth Third Bancorp 1993 Stock Purchase Plan. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003. *

10.8 Fifth Third Bancorp 1998 Long-Term Incentive Stock Plan, as Amended. Incorporated by reference to the Exhibits to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.*

10.9 Fifth Third Bancorp Non-qualified Deferred Compensation Plan, as Amended and Restated. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 8, 2006. *

10.10 CNB Bancshares, Inc. 1999 Stock Incentive Plan, 1995 Stock Incentive Plan, 1992 Stock Incentive Plan and Associate Stock Option Plan; and Indiana Federal Corporation 1986 Stock Option and Incentive Plan. Incorporated by reference to Registrant s filing with the Securities and Exchange Commission as an exhibit to a Registration Statement on Form S-4, Registration No. 333-84955 and by reference to CNB Bancshares Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 1998. *

10.11 Fifth Third Bancorp Stock Option Gain Deferral Plan. Incorporated by reference to Registrant s Proxy Statement dated February 9, 2001.*

10.12 Amendment No. 1 to Fifth Third Bancorp Stock Option Gain Deferral Plan. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 26, 2006. *

10.13 Old Kent Executive Stock Option Plan of 1986, as Amended. Incorporated by reference to the following filings by Old Kent Financial Corporation with the Securities and Exchange Commission: Exhibit 10 to Form 10-Q for the quarter ended September 30, 1995; Exhibit 10.19 to Form 8-K filed on March 5, 1997; Exhibit 10.3 to Form 8-K filed on March 2, 2000. *

10.14 Old Kent Stock Option Incentive Plan of 1992, as Amended. Incorporated by reference to the following filings by Old Kent Financial Corporation with the Securities and Exchange Commission: Exhibit 10(b) to Form 10-Q for the quarter ended June

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	30, 1995; Exhibit 10.20 to Form 8-K filed on March 5, 1997; Exhibit 10(d) to Form 10-Q for the quarter ended June 30, 1997; Exhibit 10.3 to Form 8-K filed on March 2, 2000. *
10.15	Old Kent Executive Stock Incentive Plan of 1997, as Amended. Incorporated by reference to Old Kent Financial Corporation s Annual Meeting Proxy Statement dated March 1, 1997. *
10.16	Old Kent Stock Incentive Plan of 1999. Incorporated by reference to Old Kent Financial Corporation s Annual Meeting Proxy Statement dated March 1, 1999. *
10.17	Schedule of Director Compensation Arrangements. *
10.18	Schedule of Executive Officer Compensation Arrangements. *
10.19	Notice of Grant of Performance Units and Award Agreement. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.20	Notice of Grant of Restricted Stock and Award Agreement (for Executive Officers). Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.21	Notice of Grant of Stock Appreciation Rights and Award Agreement. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.22	Notice of Grant of Restricted Stock and Award Agreement (for Directors). Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.23	Franklin Financial Corporation 1990 Incentive Stock Option Plan. Incorporated by reference to Franklin Financial Corporation s Annual Report on Form 10-K for the year ended December 31, 1989.*
10.24	Franklin Financial Corporation 2000 Incentive Stock Option Plan. Incorporated by reference to Franklin Financial Corporation s Registration Statement on Form S-8, Registration No. 333-52928. *
10.25	Amended and Restated First National Bankshares of Florida, Inc. 2003 Incentive Plan. Incorporated by reference to First National Bankshares of Florida, Inc. s Annual Report on Form 10-K for the year ended December 31, 2003. *
10.26	Southern Community Bancorp Equity Incentive Plan. Incorporated by reference to Southern Community Bancorp s Registration Statement on Form SB-2, Registration No. 333-35548. *
10.27	Southern Community Bancorp Director Statutory Stock Option Plan. Incorporated by reference to Southern Community Bancorp s Registration Statement on Form SB-2, Registration No. 333-35548. *
10.28	Peninsula Bank of Central Florida Key Employee Stock Option Plan. Incorporated by reference to Southern Community Bancorp s Annual Report on Form 10-K for the year ended December 31, 2003. *
10.29	Peninsula Bank of Central Florida Director Stock Option Plan. Incorporated by reference to Southern Community Bancorp s Annual Report on Form 10-K for the year ended December 31, 2003. *
10.30	First Bradenton Bank Amended and Restated Stock Option Plan. Incorporated by reference to Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2004. *
10.31	Letter Agreement with R. Mark Graf. Incorporated by reference to the Exhibits to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005. *
10.32	Amendment Dated January 16, 2006 to the Letter Agreement with R. Mark Graf. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2006.
10.33	Separation Agreement between Fifth Third Bancorp and Neal E. Arnold dated as of December 14, 2005. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 22, 2005. *
10.34	Stipulation and Agreement of Settlement dated March 29, 2005, as Amended. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2005.
10.35	Amendment to Stipulation dated May 10, 2005. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2005.

10.36	Second Amendment to Stipulation dated August 12, 2005. Incorporated by reference to Registrant s Current Report on Form 8- K filed with the Securities and Exchange Commission on November 18, 2005.
10.37	Order and Final Judgment of the United States District Court for the Southern District of Ohio. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2005.
10.38	Offer letter from Fifth Third Bancorp to Christopher G. Marshall dated April 12, 2006. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.*
10.39	Form of Executive Agreements effective February 19, 2007, between Fifth Third Bancorp and Kevin T. Kabat, Robert A. Sullivan, Greg D. Carmichael, Christopher G. Marshall, Carlos Winston Wilkinson, Bruce K. Lee and Charles D. Drucker.*
10.40	Form of Executive Agreements effective February 19, 2007, between Fifth Third Bancorp and Paul L. Reynolds, Malcolm D. Griggs and Daniel T. Poston.*
10.41	Form of Executive Agreement effective February 19, 2007, between Fifth Third Bancorp and Mahesh Sankaran.*
12.1	Computations of Consolidated Ratios of Earnings to Fixed Charges.
12.2	Computations of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
14	Code of Ethics. Incorporated by reference to Exhibit 14 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2007.
21	Fifth Third Bancorp Subsidiaries, as of December 31, 2006.
23	Consent of Independent Registered Public Accounting Firm-Deloitte & Touche LLP.**
31(i)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer. **
31(ii)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.**
32(i)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.**
32(ii)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.**

* *Denotes management contract or compensatory plan or arrangement.*

** *Filed herewith*

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIFTH THIRD BANCORP

Registrant

Kevin T. Kabat

President and CEO

Principal Executive Officer

May 11, 2007

Pursuant to requirements of the Securities Exchange Act of 1934, this report has been signed on May 11, 2007 by the following persons on behalf of the Registrant and in the capacities indicated.

OFFICERS:

Kevin T. Kabat

Director, President, and CEO

Principal Executive Officer

Christopher G. Marshall

Executive Vice President and CFO

Principal Financial Officer

David J. DeBrunner

Senior Vice President and Controller

Principal Accounting Officer

DIRECTORS:

Darryl F. Allen

Gary R. Heminger

Joan R. Herschede

Allen M. Hill

Robert L. Koch II

James E. Rogers

John J. Schiff, Jr.

Dudley S. Taft

Thomas W. Traylor