FIFTH THIRD BANCORP
Form 10-K
February 20, 2007

Fifth Third s common stock is traded through the NASDAQ® Global Select Market System under the symbol   FITB.

For the years ended December 31	2006	2005	Percent Change
$ in millions, except per share data			
Earnings and Dividends			
Net Income	$ 1,188	$ 1,549	(23)
Common Dividends Declared	880	810	9
Per Share			
Earnings	$ 2.14	$ 2.79	(23)
Diluted Earnings	2.13	2.77	(23)
Cash Dividends	1.58	1.46	8
Book Value	18.02	17.00	6
At Year-End			
Assets	$ 100,669	$ 105,225	(4)
Total Loans and Leases	75,503	71,229	6
Deposits	69,380	67,434	3
Shareholders Equity	10,022	9,446	6
Year-End Market Price	40.93	37.72	9
Market Capitalization	22,767	20,958	9
Key Ratios (percent)			
Return on Average Assets (ROA)	1.13	1.50	(25)
Return on Average Equity (ROE)	12.1	16.6	(27)
Net Interest Margin	3.06	3.23	(5)
Efficiency Ratio	60.5	53.2	14
Average Shareholders Equity to Average Assets	9.32	9.06	3
Actuals			
Common Shares Outstanding (in thousands)	556,253	555,623	
Banking Centers	1,150	1,119	3
Full-Time Equivalent Employees	21,362	21,681	(1)

Deposit and Debt Ratings	Moody s	Standard & Poor s	Fitch
Fifth Third Bancorp			
Commercial Paper	Prime-1	A-1	F1+
Senior Debt	Aa3	A+	AA-
Fifth Third Bank and Fifth Third Bank (Michigan)			
Short-Term Deposit	Prime-1	A-1+	F1+
Long-Term Deposit	Aa2	AA-	AA

Dear Shareholders and Friends,

2006 marked an important transition year for Fifth Third, one that I believe has us positioned well as we head into 2007 and beyond.

First, and perhaps foremost, we added a number of new executives to our team, and promoted others. This gives us the strongest slate of leaders, I believe, in the Company s history. This team reflects a mix of long and successful tenures at Fifth Third, complemented by a number of executives brought in from other large and successful competitors, giving us a nice balance of outside perspective, continuity, and entrepreneurial drive.

Second, I point to the actions we chose to take in the fourth quarter of 2006 to address the positioning of our balance sheet during the current difficult interest rate environment, characterized by an inverted yield curve (an environment in which short-term rates are higher than long-term rates). From June 2004 to 2006, the Federal Reserve raised rates 17 consecutive times totaling 4.25 percentage points, which created significant headwinds obscuring core performance in our businesses. In November of 2006, we made the decision to reduce the size of our balance sheet and neutralize our exposure to significant future adverse changes in interest rates. This decision was costly, but we believe it was the right thing to do, and I believe it represents the final step in resolving the issues that developed following the regulatory difficulties we experienced in 2002 and 2003.

Over the last several years, we ve made significant investments in our information technology platform, in our risk management capabilities and personnel, and in our core operations capabilities. These steps are substantially complete, although we continue to make new additions to front-end technologies and improvements to infrastructure to make the Company more responsive to customer needs.

The actions we ve taken relative to the balance sheet, combined with a stabilization of the interest rate environment, should create the conditions for our historically strong core performance to re-emerge. Fifth Third s competitive position is very strong. Our tangible capital levels are among the highest in the industry. I have tremendous confidence in the strength and depth of our management team.

As a result, I have made the decision to step down as Chief Executive Officer. I couldn t feel more comfortable in handing over the chief executive position to Kevin Kabat, our current president, whom our Board has chosen to succeed me effective April 17, 2007, the date of our annual shareholders meeting. Kevin is absolutely the right person to head this Company. Kevin has been a terrific leader at Fifth Third since joining us with the Old Kent acquisition in 2001, serving as head of our Western Michigan affiliate, head of Retail Banking and Affiliate Administration, and then most recently taking on the role of President last year. I have asked him to address you with his views on our future in a separate letter following this one.

I am very proud of my years with Fifth Third and my 16 years as Fifth Third s Chief Executive Officer, and it has been an honor to serve the Company in this important role. I will continue to hold the position of Chairman, but I believe it s time for a new generation of leadership to provide the Company with a new vitality, a new level of energy, and a new direction.

2006 Results

2006 was a challenging year for the industry and for Fifth Third. In June the Federal Reserve concluded its most significant tightening campaign since the early 1980s, which resulted in an inverted yield curve for most of the second half of 2006. As a result, our borrowing costs rose for much of the year while the yield on our investment securities portfolio was relatively flat.

In November, we decided to reduce the size of our balance sheet in order to reduce our exposure to this interest rate environment and to future potential adverse rate movements. These actions resulted in the realization of a pre-tax loss of $454 million, or $291 million after tax ($0.52 per share). We expect net interest income to benefit from our improved positioning by $110 million to $120 million on an annualized basis, before hedging costs. Additionally, we realized a 65 basis points benefit to our already very strong tangible equity to tangible assets ratio.

The interest rate environment, combined with the loss resulting from our balance sheet actions, took a toll on reported results for the year. Earnings per diluted share for 2006 were $2.13, down from $2.77 in 2005. Return on average assets and return on

2

average equity were 1.13 percent and 12.1 percent, respectively, significantly below what we would normally expect and below the 1.50 percent and 16.6 percent, respectively, that we realized in 2005.

Net interest income of $2.9 billion on a tax-equivalent basis declined 3 percent from 2005. This result reflected our previous negative sensitivity to rising short-term rates, offset by solid average loan and core deposit growth of 8 percent and 5 percent, respectively. During 2006, we saw a continuation of strong average commercial loan growth, up 10 percent. Average consumer loan growth remained solid, up 6 percent, though below the levels we and the industry experienced several years ago with a more favorable rate environment. Going forward, we expect continued strong loan and core deposit growth, combined with the benefits of our balance sheet actions, to drive improved net interest income performance despite an expected continued flat to inverted yield curve.

Noninterest income of $2.2 billion declined 14 percent from 2005, reflecting net securities losses of $364 million in 2006 primarily the result of our fourth-quarter balance sheet actions compared with net securities gains of $39 million in 2005. We continued to experience strong growth in electronic payment processing revenue our largest noninterest income category up 15 percent from 2005. Corporate banking revenue also grew a solid 7 percent.

Noninterest expense of $3.1 billion grew 4 percent from 2005 levels, despite the inclusion of $49 million in expenses related to the extinguishment of financing agreements in the third and fourth quarters to reduce interest rate sensitivity. Expense growth was otherwise held to 3 percent, reflecting continued strong growth in our processing business offset by expense controls.

Credit costs remained consistent with the levels of 2005, with provision expense up 4 percent over the prior year and net chargeoffs up 6 percent, though declining slightly as a percentage of average loans to 0.44 percent from 0.45 percent in 2005.

As we look into 2007, we would expect to see upward pressure on credit. We don t have a crystal ball, but at this point we don t see significant economic deterioration on the near horizon, and don t expect a significant upward move in credit costs. Given Fifth Third s strong presence in Midwest markets, we have been experiencing slower economic growth and higher levels of credit losses than banks in other regions for some time. Fifth Third is a lending company, and we are in the risk business. The ebbs and flows of the credit cycle are to be expected and do not change our attitude on that front.

Commitment to our Shareholders and our Communities

We at Fifth Third are deeply aware that you, our shareholders, own the Company, and that we are accountable to you. Thus, we are proud to maintain among the very highest corporate governance ratings in the industry. Our Corporate Governance Quotient, as published by Institutional Shareholder Services, is in the top 4 percent of companies in the S&P 500 and in the top 1 percent of all U.S. banks.

I have always believed that Fifth Third and the cities and regions it serves are mutually dependent and we have always acted upon that belief. Thus, I am especially proud that Fifth Third s Ohio and Michigan banks each received an Outstanding rating on our most recent Community Reinvestment Act performance evaluation by the Federal Reserve Bank.

Commitment to the Future

I d like to take this opportunity to express my deep appreciation to all the constituents that make Fifth Third a great company our customers, our 21,362 employees, our board members, and the citizens of the communities served by our 19 affiliates. Our employees, in particular, have accomplished tremendous things at Fifth Third during my tenure, never more so than during the past year.

2006 was a difficult year for Fifth Third make no mistake about it. But I believe the Company as it enters 2007 is in its strongest position ever. Our balance sheet is very strong and well-capitalized. We have the broadest and deepest management team we ve ever had. Our technology platform is robust and scalable. And we have strong positions in our Midwest markets, with solid footholds in growth markets. We are better positioned to deliver organic growth than ever before in our history, through our strong sales culture and increased focus on customer service and satisfaction, and through our successful de novo activities. And we are well positioned to participate in what will continue to be a consolidating industry for many years ahead.

Thank you for the opportunity to have served you for the last 36 years.

Sincerely,

George A. Schaefer, Jr.

Chairman & Chief Executive Officer

February 2007

Dear Shareholders and Friends,

I am deeply honored to address you as President of Fifth Third Bancorp and as George Schaefer s successor. Having competed with him earlier in my career, and then having the good fortune to work for him the past five years, I believe he is one of the giants of the banking industry. We are fortunate that he will remain with us as Chairman, to provide us with his wise counsel and good sense.

When George became President and Chief Executive Officer of Fifth Third at the end of 1990, the Company had $8 billion in assets and a market capitalization of a little over $1 billion. We ve grown to over $100 billion in assets in the succeeding 16 years with a market value of nearly $23 billion. During that period, Fifth Third has generated a total shareholder return of 17.5 percent on a compound annual basis, driven by strong growth in originally reported earnings per share and rising dividends. That return compares with 12 percent for the S&P 500 over that period. This is truly an enviable track record, one that we aspire to continue.

Building an Even Better Tomorrow

The title of this year s annual report Building an Even Better Tomorrow aptly describes what we are about here at Fifth Third. The title is adapted from the new brand that we introduced this February.

That s what we are aiming for building an even better tomorrow. This Company was built upon an incredibly strong sales culture, a winning attitude and very high standards and expectations. We don t play for average. During the past 16 years, our performance topped the industry, even when you include the past three sub-par years. Whether measured by originally reported earnings per share, asset growth, market capitalization growth or total return, we ve outperformed our peers.

But the last three years we haven t met our own expectations, or yours. We know it is time to show results, and that s what we are prepared to do. We have the right team in place, having promoted or hired new leaders who are bringing a fresh perspective and new energy. We are united as a team and feel an urgency to return to the head of the pack.

Our Model

We are fortunate to have many strengths to build on. Our affiliate model allows us to deliver big-company results on a local scale. We have local management with full accountability in each market, making decisions locally that affect our customers. This model may not be the least expensive way to organize a company. But efficiencies, standardization and a common technology platform combine with personal, high-touch service in each affiliate to create real benefit. This is perhaps our biggest competitive differentiator. Where decentralization does not add value, for us or for our customers, we will continue to look for ways to enhance efficiency, but we remain committed to the essence of the model. We provide more information on our affiliate model, our regions and affiliates, and their leadership on page 10 of this report.

Overlaying our affiliate structure are five lines of business: Branch Banking; Commercial Banking; Processing Solutions; Consumer Lending; and Investment Advisors. These lines of business are areas of expertise whose products and services are delivered to customers through the affiliates in a way that ensures that customer relationships are viewed as a whole. Below I discuss some of the key strategies under way in our lines of business. Our businesses are described in more detail on pages 11 through 15.

Key Strategies and Focus Areas

One of our key strategies is our commitment to Everyday Great Rates, implemented in the summer of 2005. We believe this strategy for deposit growth strikes an optimal balance between growth and profitability. Everyday Great Rates is what it says very competitive rates, in every product category, every day. It s simple but powerful. It s helped us attract new customers while also leading our existing customers to realize they don t need to shop for weekly rate promotions. That, in turn, has reduced attrition and reduced the temptation for customers to shift to higher-rate, less liquid products like CDs, keeping our overall deposit costs low and in line with our competitors.

We believe Everyday Great Rates has significantly helped us with deposit growth. Based on FDIC data for the most recent reporting period ended June 2006, Fifth Third had the third highest deposit growth among large banks in branches open more than one year.

Another important retail focus over the past three years and one we are augmenting in 2007 has been de novo branching activity. Since 2003, we have built 212 new banking centers. These branches accounted for 36 percent of our core deposit growth in 2006. We conduct market segmentation analysis and use predictive modeling to target locations in key growth markets with the demographics and business activity that has proven successful for us. Our success with our new locations has led us to plan to build approximately 70 new branches in 2007, with expectations that they will break even in about 18 months and produce an internal rate of return of better than 20 percent. De novo activity is costly in the near term, but it s the right thing to do to sustain organic growth into the future.

I m enthusiastic about recent developments in our business banking efforts. We are already pretty good at this business and were proud to be ranked fifth among large U.S. banks in J. D. Power s 2006 Small Business Banking Satisfaction Study but we can become much better. As a next step, we are assigning most of our customers to a designated business banking relationship manager, armed with customized and bundled product offerings, a standardized underwriting process, and automated portfolio management.

Commercial Banking has long been one of our strengths. We enjoy a strong position with middle-market commercial customers (companies with $10 million to $500 million in sales) within our footprint. Fifth Third gained more new customers over the past two years among middle-market companies in our footprint than any competitor, with more than two-thirds of our affiliates increasing penetration in the middle market. Fifteen percent of such companies are Fifth Third customers, and we are the lead bank for nearly two-thirds of them.

An exciting development during the past year has been the electronic deposit product. This is an important area in which Fifth Third has taken a leadership position in commercial banking. This product transforms the payment landscape, enabling truncation of paper checks at the point of receipt. Our business customers no longer need to take checks to a branch to make a deposit. And, in driving paper to electronic transformation, we are able to gain control over one of the most manual processes remaining in cash management. Customers using this product are able to save time, optimize their working capital and consolidate their banking relationships. We ve experienced rapid growth in 2006, particularly the latter half, and are receiving deposits from locations in 35 states. Continuing to capitalize on this opportunity is a priority for 2007.

We continue to experience increased demand among our middlemarket customers for capital markets products as Fifth Third has expanded in size and capabilities. We ve recently introduced, or are introducing a number of such products to meet this demand, and we re going after industry sectors and geographies where we are under-represented given our market position.

Our Processing Solutions business continues to produce strong results. The industry is seeing increasing adaptation of electronic payment vehicles and Check 21 electronic item processing. Our industry leadership in providing value-added processing solutions through consultation with customers will continue to allow us to outperform our peers. And we ve seen strong growth in our credit card business, with average receivables growth of 18 percent during 2006.

However, despite our success over the past several years, only 13 percent of our retail customers have our credit cards. We are taking steps to expand our penetration through improved point-of-sale technology, bundled product offerings through banking centers and call centers, and enhanced sales management processes. We re also modestly expanding our risk spectrum where we can achieve attractive risk-adjusted returns. Current portfolio FICO scores average over 740, with a very low 3.49 percent charge-off rate, so we have the ability to better align our offerings with our current clients while, at the same time, maintaining high credit quality standards.

The Consumer Lending business had a very difficult year, given the drop-off in mortgage originations industry-wide and more sluggish auto sales. We believe improved industry conditions and new products we ve launched will lead us toward better results in 2007. For example, in the latter part of the year, we launched an Alt-A nonconforming mortgage product that accounted for over $350 million in originations in just a few months. These loans are being sold following origination to third parties for distribution to the capital markets, allowing us to originate volume that we ve been unwilling to hold historically.

Our Investment Advisors business had a mixed 2006. Our largest investment business, the Private Client Group, continues to perform very well. Brokerage results have not been as strong, primarily reflecting net attrition of financial advisors. We recently instituted a targeted recruiting program that we expect to result in net hiring going forward. And we are in the process of rolling out new financial planning and customer relationship management tools, which we expect to be key catalysts for results in 2007. In the asset management business, our continued efforts to open our architecture across all client segments have made growth of Fifth Third managed funds more challenging. Meeting our customers

needs is paramount to success in this business and broadening our offerings is the right thing to do. We ve recently brought in new leadership to drive improved results, and we are already seeing a positive impact to our strategies.

Technology for Tomorrow

As we ve discussed here for the past several years, Fifth Third has taken significant strides in elevating the level of our infrastructure and front-end technology. Frankly, we were underinvested in our infrastructure three or four years ago. Today, we have the systems, security and capabilities that are necessary for an institution of our size, and that will allow us to continue to grow.

During the past 36 months, we ve replaced or upgraded 80 percent of our technology systems. With much of our infrastructure investments behind us, further progress in this area will be evolutionary. We are leveraging our technology spending into improvements in our product offerings and our services. Examples would include our placement of more than 1,000 remote-capture deposit scanners with our business customers, deploying an enterprise problem resolution platform, developing a new customer experience portal, and creating performance management tools and dashboards.

A Better Customer Experience and a New Brand Promise

Customers are more demanding than ever, and we must continue to meet and exceed a bar that is continually being raised by customers and our competitors. Fifth Third has long been known for our sales culture and our ability to bring customers in the door. But we have not been world-class in keeping them. This is one of our biggest opportunities.

And, while our sales culture is terrific, there has been a large dose of hard work and hustle associated with that. Historically, we ve been more transaction-oriented than is ideal. Focusing on our relationships with customers not just today s relationship, but our future relationship will help us increase retention and increase wallet share with our customers.

What our customers tell us they need is a trusted advisor for the long haul. To deliver, we must understand our customers needs tomorrow to properly address the need today that brought them into our banking center or caused them to pick up the phone. In our service delivery, we must prove we care about our relationship tomorrow when we re dealing with today s issues.

In February 2007, we began rolling out a new brand a brand that will encompass visual changes in Fifth Third s marketing but, more important, a brand that changes the promises we make to our customers. We are aligning everything toward fulfilling our brand commitment and building a better tomorrow. Later in this report, you will see further discussion of developments at Fifth Third related to consultative sales training, customer experience enhancements and key brand elements.

Ultimately, I believe our renewed focus on the customer experience, and a brand that supports it, are the most exciting developments under way at Fifth Third.

Closing

I m excited about our prospects for 2007 and the future. And I m honored to have been chosen to lead Fifth Third into that future. This is a great company a company full of people who are hard-working, passionate about Fifth Third and passionate about winning and I have every confidence that we will deliver for you, for our employees and for our communities That is what Fifth Third is all about.

Sincerely,

Kevin T. Kabat

President

February 2007

6

Fifth Third Bancorp **CORPORATE LEADERSHIP**

Bottom row, left to right: George A. Schaefer, Jr., chairman and Chief Executive Officer, Fifth Third Bancorp; Kevin T. Kabat, president, Fifth Third Bancorp; Paul L. Reynolds, executive vice president and General Counsel; Terry E. Zink, executive vice president, Affiliate Administration.

Second row, left to right: Christopher G. Marshall, executive vice president and Chief Financial Officer; Malcolm D. Griggs, executive vice president, Enterprise Risk Management. ***Third row, left to right:*** Charles Drucker, executive vice president and president, Fifth Third Processing Solutions;

Greg D. Carmichael, executive vice president and Chief Operating Officer; Carlos Winston Wilkinson, executive vice president, Consumer and Retail Banking; Daniel T. Poston, executive vice president, Audit. ***Fourth row:*** Bruce K. Lee, executive vice president, Commercial Banking.

Fifth row: Robert A. Sullivan, senior executive vice president and president, Fifth Third Bank (Cincinnati).

Creating a higher standard.

We have publicly disclosed governance guidelines.

Independent outside directors constitute 13 of 15 directors (87 percent), with a named lead independent director.

The Nominating and Corporate Governance, Compensation, Audit, and Risk and Compliance committees are comprised solely of independent outside directors.

Outside directors meet regularly without the CEO present.

Directors receive a significant portion of their compensation in the form of equity.

Directors and executives are subject to stock ownership guidelines, with mandatory holding periods for restricted stock and stock acquired through the exercise of options.

Our board is declassified all directors are elected annually.

We have eliminated the super-majority voting provision in our Code of Regulations.

We have no poison pill .

Branding & Customer Experience

Moving ahead with you.

As you glance at the cover of this year s annual report, you may notice that something looks different. The traditional red and blue logo that has been the symbol of Fifth Third for nearly 20 years is gone, replaced by a new mark and a new color palette a brighter shade of blue, signaling dependability and trust, and green that emphasizes growth and optimism. The new mark also is symbolic of a horizon, the place where today and tomorrow converge. It reminds us to look beyond today s transaction and find ways to widen our relationship with our customers.

This updated mark is just one outcome of a nearly two-year brand development process undertaken by Fifth Third and conducted by Cincinnati-based Deskey, one of the country s leading branding firms.

A brand is a collection of experiences, the sum total or cumulative effect of many touch points over a period of time. Successful brands engage customers, and engaged customers buy much more from the brands they prefer. Successful brands are aligned with and in fact are part of a business strategy to produce results.

To develop a relevant brand, it was important that we understand our customers, understand our competitors and understand

ourselves. The brand development process involved extensive research with consumers and business customers across the Fifth Third footprint and with all levels of Fifth Third employees. We also conducted research to understand exactly how the existing brand is perceived today.

We learned much from this process, including that our customers don t feel they are spending enough time or taking the right steps to address their future needs. And both consumers and businesses want their bank to shoulder some of the responsibility for suggesting smart ways to protect their future.

The outcome of this research is that we intend to be the bank for today and for tomorrow. We want to help our customers gain confidence in their financial decisions because, with our help, they understand how their current decisions affect them over the long haul.

An important cornerstone of our new brand development is customer engagement. In order to be our customers bank today and tomorrow, we must provide excellent customer service with each and every transaction.

In recognition of this, we ve begun implementing consultative sales training for our retail and call center employees. This training and ongoing sales coaching is designed around four key drivers customers find important. They include friendliness, ease of doing business, individualized attention, and the degree of knowledge about the bank s products and services. The goal is to ensure that the totality of our customers needs are being evaluated and met every time we interact with them. This, we hope and expect, will lead to stronger relationships with our customers and will earn us trusted advisor status with our customers.

We also are implementing a new performance management system in 2007, again focused on key customer demands and requirements for satisfaction. Compensation will be tied to how well employees perform on the four key drivers mentioned previously. They also will be evaluated on sales production and net income growth measured down to the individual level. In addition, beginning this year, we will track every banking center s Gallup customer satisfaction and loyalty scores, with branch personnel compensation tied directly to these measures.

Finally and it may prove the most important step we take in this area in 2007 we will roll out a problem resolution platform that extends first to the retail and call center channels, then later across all lines of business. There is nothing that tests a customer s loyalty more than the way you handle issues. We need to be able to track, to respond, and ideally to correct on first contact, such problems as they arise in a way that demonstrates we value our relationship with our customers.

To deliver on our new brand promise, the customer experience is vital. We are developing technological requirements necessary to deliver an outstanding customer experience. We are establishing customer experience councils in every affiliate and line of business, consisting of senior executives throughout the Company. And, we ve done a great deal of work over the past two years to survey the engagement levels of our employees and align their goals with the goals and objectives of the Company and its customers. Engaged employees are the most critical aspect of delivering a customer experience that is satisfying.

Affiliate Model

Maintaining competitive advantage.

The affiliate model is at the core of Fifth Third and is what differentiates us from other large financial institutions. We operate each affiliate with local management. Each affiliate has an experienced president and senior management team, resident in each market, driving the business. And each affiliate has a board of directors comprised of local business and community leaders. This means that we have local decision-makers, able to view customer relationships in holistic ways, making local decisions.

This model gives us a tremendous competitive advantage in our responsiveness to customers; in attracting employees who want to control the customer relationship locally; and in giving us 19 mini-incubators for new ideas and best practices. Our entrepreneurial and sales cultures are at the heart of the affiliate model, and contribute tremendously to Fifth Third s success.

Overlaying the affiliate structure are our lines of business. These are essentially areas of product expertise Branch Banking, Consumer Lending, Commercial Banking, Processing Solutions and Investment Advisors whose products and services are delivered to customers through the affiliates in a way that ensures customer relationships are viewed as a whole.

As an example of the kind of success we can produce with this model, we have 19 affiliates plus our Pittsburgh and St. Louis de novo markets. For the year ended June 2006 (most recent FDIC data), 20 of these 21 markets (including the de novo markets) grew deposits. Excluding branches with over $1 billion in deposits, all 21 markets grew deposits and 17 of the 21 markets grew deposit market share (18 of 21 excluding $1 billion branches).

Affiliate Leadership

* Bancorp deposits also include $4 billion in National and non-affiliate deposits.

Exceeding customer expectations.

Business Description

Fifth Third Bank provides a full range of deposit and lending products to individuals and small businesses in 10 states in the Midwest, Tennessee and Florida. Our 2.7 million households can transact business 24 hours a day, seven days a week through our Jeanie® ATM network and our comprehensive online banking service. Through these channels, Fifth Third strives to provide exceptional products, convenience and service to our customers.

2006 Highlights

Customer Focus

Branch Banking provides deposit, lending and investing products and services for customers at every stage in life or career. Branch Banking s 9,000 employees provide knowledgeable and reliable guidance, whether customers meet with them personally or via any of our automated banking solutions. Our business bankers can provide full solutions to a small business customer including loans, treasury management products, employee savings plans, or employee banking needs. Whether saving for a home, a child s education, planning for retirement or building a business, our associates consult with our customers, help determine their needs and provide solutions that meet today s goals as well as tomorrow s.

Strategy

Fifth Third expects to continue recent de novo branch banking expansion activities with the planned addition of approximately 50 net new de novos in 2007. Areas of heaviest de novo activity continue to be primarily in the Florida, Chicago, Detroit and Nashville markets. Our business banking business now incorporates 341 business bankers calling on customers with up to $10 million in sales throughout our footprint, and we are adding relationship managers in this area. We continue to make improvements in sales management processes and customer service to build productivity and customer satisfaction and to enhance client retention.

Consumer Lending

Evolving with the marketplace.

Business Description

Consumer Lending provides loan products to branch and other customers, primarily within Fifth Third s footprint. Consumer Lending partners with a network of auto dealers that originate loans on the Bank s behalf, otherwise know as indirect lending.

Additionally, Consumer Lending provides loan and lease products to individuals including mortgages and home equity loans and lines, as well as federal and private student education loans.

2006 Highlights

Customer Focus

Recognizing that personal loans are often a vital element for the prosperity of our customers, we offer a broad range of loans that correspond to the financial situation of our customers. Whether for a first car or a retirement home, Fifth Third provides loans that fit our customers needs, today and tomorrow.

Strategy

Fifth Third understands that not every customer needs the same loan product to fulfill his or her needs. In order to evolve with the marketplace and meet the changing needs of customers as they progress through life, we continue to refine and develop our lending solutions. Whether customers need a first mortgage or a loan to send their children to college, we intend to be there with the right solution for them. And by using products like our new Alt-A mortgage product we have been able to facilitate home ownership for a larger segment of our customer population. We ve also expanded our auto dealer network to 24 states, including the 10 in our banking footprint, with an expectation that we ll continue to add states over the next several years.

Investment Advisors

Strengthening relationships.

Business Description

With over 100 years of experience helping our clients build and manage their wealth, Fifth Third Investment Advisors provides integrated solutions to meet the financial goals of individuals, families and institutional investors. Investment Advisors provides wealth management, asset management and brokerage services to retail and institutional clients, as well as retirement plan and custody services to businesses, pension and profit-sharing plans, foundations and endowments.

2006 Highlights

Customer Focus

Clients receive specialized advice from one or more of our four business lines: Fifth Third Securities, Private Client Group, Fifth Third Institutional Client Group and Fifth Third Asset Management. Fifth Third s Private Client Group uses specialized teams to leverage our clients financial resources and provide holistic strategies in wealth planning, investment services, trust services, private banking and wealth protection. Fifth Third Securities offers a suite of products from full-service brokerage to self-managed investing to provide our clients customized programs to meet today s needs, as well as tomorrow s. Fifth Third Asset Management provides asset management services to institutional clients and also advises the Company s proprietary family of mutual funds, Fifth Third Funds. Fifth Third s Institutional Client Group, in conjunction with Fifth Third Asset Management, provides advisory services for 379 institutional clients including states and municipalities, Taft-Hartley plans, pension and profit-sharing plans, and foundations and endowments.

Strategy

Fifth Third continues to strengthen customer relationships by providing an open architecture framework to ensure that clients have access to the best products to meet their needs, whether those products are Fifth Third s or from another financial service provider. We continue to employ new technologies to improve client access to their accounts and products. We provide complete financial solutions to Fifth Third clients by leveraging partnerships throughout the Company to provide powerful solutions across the financial spectrum.

Commercial Banking

Committed to innovation.

Business Description

Fifth Third s 1,100 commercial bankers serve clients ranging from middle-market companies with $10 million in annual revenue to some of the largest companies in the world. In addition to the traditional lending and depository offerings, our products and services include cash management, foreign exchange and international trade finance, derivatives and capital markets services, asset-based lending, real estate finance, public finance, commercial leasing and syndicated finance.

Customer Focus

Fifth Third has over 150 years of commercial banking experience, and throughout our history we have always believed in keeping decision-making local. Through our affiliate model, keeping close to the communities we serve, Fifth Third is able to offer the high level of service of a local bank while maintaining the financial strength and capabilities that come with being one of the largest banks in the country.

We strive to offer complete financial solutions to our clients and we believe that the focus should be on our total relationship with our clients not just meeting today s needs but working with clients to identify tomorrow s requirements as they grow.

Strategy

Fifth Third remains committed to offering innovative and effective solutions for our customers. We recently began offering electronic depository services that allow customers to scan checks and deposit them electronically from whatever location they choose. This has allowed our clients to focus more time on improving their business rather than on routine banking tasks and has permitted us to serve as our customers depository anywhere in the country. During 2006, we processed 5.7 million electronic deposit transactions totaling $10.4 billion. We received deposits from 944 locations as of year-end. We continue to add value to all of our relationships by combining our depth of experience with complete solutions that will best meet our clients evolving needs.

2006 Highlights

Processing Solutions

Creating solutions and reducing costs.

Business Description

Fifth Third Processing Solutions provides electronic funds transfer, debit, credit and merchant transaction processing for Fifth Third and Fifth Third customers. Processing Solutions specializes in providing our clients with the highest quality transaction solutions available through a complete global payments solution. Our in-house systems and development teams continue to create new technology to offer unmatched flexibility and customization to not only fulfill our clients current needs, but their future needs as well. Processing Solutions also manages Fifth Third s debit and credit card businesses and operates the Jeanie® ATM network.

2006 Highlights

** excluding pre-tax gains on sale*

of MasterCard® stock of $78 million

Customer Focus

Fifth Third Processing Solutions operates three primary businesses Merchant Services, Financial Institutions Services and Card Services. For more than three decades, the nation s top retailers and businesses have trusted Fifth Third s Merchant Services Group to provide superior card acceptance solutions. We have developed flexible system architecture with a wealth of technological options and processing features capable of meeting the individual requirements of any business. Our Financial Institution and Card Services groups combine to provide a complete global payments solution delivered with a consultative approach from one of the nation s leading financial institutions. We act as a business advisor to our clients, forging strategic partnerships and creating solutions that enable revenue enhancements while simultaneously reducing costs. Customers are provided with a full array of capabilities including correspondent banking services, Check 21 processing and support, automated teller machine processing, credit and debit card management, network gateway access, fraud monitoring services and international banking.

Strategy

Fifth Third is able to leverage our significant market position and distribution capabilities to assist existing customers and gain new ones. We are creating a more effective cross-selling and product-bundling platform to strengthen current customer relationships and capture the complete processing business from new customers. We are able to demonstrate exceptional value by leveraging our in-house expertise and working with clients to help them run their merchant and electronic funds transfer businesses more efficiently and productively, while our scale enables us to be highly price-competitive.

Community Giving

Supporting our communities.

The Foundation Office administers grants on behalf of the Fifth Third Foundation and the eight charitable trusts for which the Bank serves as trustee. The Fifth Third Foundation made over 560 grants totaling $4 million in the areas of arts & culture, community development, education and health & human services in 2006. The Fifth Third Foundation also funded 17 scholarships of $2,500 each to children of Fifth Third employees and matched $122,000 in employees personal gifts to institutes of higher learning.

In 2006, grants from the Fifth Third Foundation, the George and Betty Ann Schaefer Foundation and Fifth Third Bank provided funding for a Veteran s Day performance of the United States Military Academy at West Point Cadet Gospel Choir at the National Underground Railroad Freedom Center in Cincinnati. The event was one part of day-long festivities to honor military veterans.

Fifth Third s Community Development Corporation (CDC) invests in low-income housing, historic tax credits and economic development projects to support community revitalization in neighborhoods throughout the Fifth Third footprint. In 2006, the CDC approached a milestone the lending of nearly $1 billion since its inception in 1989.

Our Community Affairs department identified lending and real estate opportunities in traditionally underserved markets, such as ethnically diverse, urban and low- to moderate-income census tracts. This group also champions financial literacy by providing homebuyer training, credit counseling and college savings programs, and through the creation of the Young Bankers Club, a nationally recognized program that promotes financial literacy in elementary schools across our footprint.

2006 Employee & Corporate Giving

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 or future or conditional verbs such as will, would, should, could, might, can, may or similar expressions. There are a number of important factors that co future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) general economic conditions, 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.

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

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

TABLE 1: SELECTED FINANCIAL DATA

For the years ended December 31 ($ in millions, except per share data)	2006	2005	2004	2003	2002
Income Statement Data					
Net interest income *(a)*	**$2,899**	2,996	3,048	2,944	2,738
Noninterest income	**2,153**	2,500	2,465	2,483	2,183
Total revenue *(a)*	**5,052**	5,496	5,513	5,427	4,921
Provision for loan and lease losses	**343**	330	268	399	246
Noninterest expense	**3,056**	2,927	2,972	2,551	2,337
Net income	**1,188**	1,549	1,525	1,665	1,531
Common Share Data					
Earnings per share, basic	**$2.14**	2.79	2.72	2.91	2.64
Earnings per share, diluted	**2.13**	2.77	2.68	2.87	2.59
Cash dividends per common share	**1.58**	1.46	1.31	1.13	.98
Book value per share	**18.02**	17.00	16.00	15.29	14.98
Dividend payout ratio	**74.2%**	52.7	48.9	39.4	37.8
Financial Ratios					
Return on average assets	**1.13%**	1.50	1.61	1.90	2.04
Return on average equity	**12.1**	16.6	17.2	19.0	18.4
Average equity as a percent of average assets	**9.32**	9.06	9.34	10.01	11.08
Tangible equity	**7.79**	6.87	8.35	8.56	9.54
Net interest margin *(a)*	**3.06**	3.23	3.48	3.62	3.96
Efficiency *(a)*	**60.5**	53.2	53.9	47.0	47.5
Credit Quality					
Net losses charged off	**$316**	299	252	312	187
Net losses charged off as a percent of average loans and leases	**.44%**	.45	.45	.63	.43
Allowance for loan and lease losses as a percent of loans and leases *(b)*	**1.04**	1.06	1.19	1.33	1.49
Allowance for credit losses as a percent of loans and leases *(b)*	**1.14**	1.16	1.31	1.47	1.49
Nonperforming assets as a percent of loans, leases and other assets, including other real estate owned	**.61**	.52	.51	.61	.59
Average Balances					
Loans and leases, including held for sale	**$73,493**	67,737	57,042	52,414	45,539
Total securities and other short-term investments	**21,288**	24,999	30,597	28,947	23,585
Total assets	**105,238**	102,876	94,896	87,481	75,037
Transaction deposits	**48,946**	47,929	43,175	40,370	35,819
Core deposits	**59,446**	56,420	49,383	46,796	44,674
Wholesale funding	**32,423**	33,863	33,714	28,814	19,086
Shareholders equity	**9,811**	9,317	8,860	8,754	8,317
Regulatory Capital Ratios					
Tier I capital	**8.39%**	8.35	10.31	10.97	11.70
Total risk-based capital	**11.07**	10.42	12.31	13.42	13.51
Tier I leverage	**8.44**	8.08	8.89	9.11	9.73

(a) Amounts presented on a fully taxable equivalent basis (FTE). The taxable equivalent adjustments for years ending December 31, 2006, 2005, 2004, 2003 and 2002 are $26 million, $31 million, $36 million, $39 million and $39 million, respectively.

(b) At December 31, 2004, the reserve for unfunded commitments was reclassified from the allowance for loan and lease losses to other liabilities. The 2003 year-end reserve for unfunded commitments has been reclassified to conform to the current year presentation. The allowance for credit losses is the sum of the allowance for loan and lease losses and the reserve for unfunded commitments.

TABLE 2: QUARTERLY INFORMATION

	2006				2005			
For the three months ended ($ in millions, except per share data)	**12/31**	**9/30**	**6/30**	**3/31**	12/31	9/30	6/30	3/31
Net interest income (FTE)	**$744**	**719**	**716**	**718**	735	745	758	759
Provision for loan and lease losses	**107**	**87**	**71**	**78**	134	69	60	67
Noninterest income	**219**	**662**	**655**	**617**	636	622	635	607
Noninterest expense	**798**	**767**	**759**	**731**	763	732	728	705
Income before cumulative effect	**66**	**377**	**382**	**359**	332	395	417	405

Cumulative effect of change in accounting principle, net of tax	**-**	**-**	**-**	**4**	-	-	-	-
Net income	**66**	**377**	**382**	**363**	332	395	417	405
Earnings per share, basic	**.12**	**.68**	**.69**	**.66**	.60	.71	.75	.73
Earnings per share, diluted	**.12**	**.68**	**.69**	**.65**	.60	.71	.75	.72

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

OVERVIEW

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

The Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. At December 31, 2006, the Bancorp had $100.7 billion in assets, operated 19 affiliates with 1,150 full-service Banking Centers including 111 Bank Mart® locations open seven days a week inside select grocery stores and 2,096 Jeanie® ATMs in Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Pennsylvania and Missouri. The Bancorp reports on five business segments: Commercial Banking, Branch Banking, Consumer Lending, Investment Advisors and Fifth Third Processing Solutions (FTPS). During the first quarter of 2006, the Bancorp began separating its Retail line of business into the Branch Banking and Consumer Lending business segments. All prior year information has been updated to reflect this presentation.

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

The Bancorp s revenues are fairly evenly dependent on net interest income and noninterest income. During 2006, net interest income, on a fully taxable equivalent (FTE) basis, and noninterest income provided 57% and 43% of total revenue, respectively. Excluding fourth quarter balance sheet actions discussed later in this section, net interest income (FTE) and noninterest income provided 53% and 47% of total revenue, respectively; comparison being provided to supplement an understanding of fundamental revenue trends. Therefore, changes in interest rates, credit quality, economic trends and the capital markets are primary factors that drive the performance of the Bancorp. As discussed later in the Risk Management section, risk identification, measurement, monitoring, control and reporting are important to the management of risk and to the financial performance and capital strength of the Bancorp.

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

expected cash flows caused by loan defaults and inadequate collateral, among other factors.

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

Noninterest income is derived primarily from electronic funds transfer (EFT) and merchant transaction processing fees, card interchange, fiduciary and investment management fees, corporate banking revenue, service charges on deposits and mortgage banking revenue.

Earnings Summary

The Bancorp s net income was $1.19 billion or $2.13 per diluted share in 2006, a 23% decrease compared to $1.55 billion and $2.77 per diluted share in 2005. These results reflect the impact of the balance sheet actions announced and completed during the fourth quarter of 2006, which resulted in a pretax loss of $454 million. Specifically, these balance sheet actions included:

Sale of $11.3 billion in available-for-sale securities with a weighted-average yield of 4.30%;
Reinvestment of approximately $2.8 billion in available-for-sale securities that are more efficient when used as collateral for pledging purposes;
Repayment of $8.5 billion in wholesale borrowings at a weighted-average rate paid of 5.30%; and
Termination of approximately $1.1 billion of repurchase and reverse repurchase agreements.

These actions were taken to improve the asset/liability profile of the Bancorp and reduce the size of the Bancorp s available-for-sale securities portfolio to a size that is more consistent with its liquidity, collateral and interest rate risk management requirements; improve the composition of the balance sheet with a lower concentration in fixed-rate assets; lower wholesale borrowings to reduce leverage; and better position the Bancorp for an uncertain economic and interest rate environment. The pretax losses consisted of:

$398 million in losses on the sale of securities;
$17 million in losses on derivatives to hedge the price of the securities sold, recorded in other noninterest income; and
$39 million in charges related to the termination of certain repurchase and reverse repurchase financing agreements, recorded in other noninterest expense.

Net interest income (FTE) decreased three percent compared to 2005. Net interest margin decreased to 3.06% in 2006 from 3.23% in 2005 largely due to rising short-term interest rates, the impact of the primarily fixed-rate securities portfolio and mix shifts within the core deposit base from demand deposit and interest checking categories to savings, money market and other time deposit categories paying higher rates of interest.

Noninterest income decreased 14% in 2006 compared to 2005 primarily due to the securities and related derivative losses from the balance sheet actions taken in the fourth quarter of 2006 totaling $415 million. Excluding these losses, noninterest income increased $68 million, or three percent, compared to 2005 due to continued strong growth in electronic payment processing and corporate banking revenue offset by a $19 million decline in mortgage banking revenue. Noninterest expense increased four percent compared to 2005 primarily due to increases in volume-related bankcard expenditures, equipment expenditures and occupancy expense related to the addition of de novo banking centers, investments in technology and the $39 million in charges related to the termination of certain repurchase and reverse repurchase agreements. Excluding the $39 million, noninterest expense increased by three percent.

In 2006, net charge-offs as a percent of average loans and leases were 44 basis points (bp) compared to 45 bp in 2005. At December 31, 2006, nonperforming assets as a percent of loans and leases increased to .61% from .52% at December 31, 2005.

The Bancorp s capital ratios exceed the well-capitalized guidelines as defined by the Board of Governors of the Federal Reserve System (FRB). As of December 31, 2006, the Tier I capital ratio was 8.39% and the total risk-based capital ratio was 11.07%.

The Bancorp continues to invest in the geographic areas that offer the best growth prospects, as it believes this investment is the most cost efficient method of expansion within its largest affiliate markets. During 2006, the Bancorp opened 51 net new banking centers (excluding relocations and consolidations of existing facilities) with plans to add a similar amount in high-growth markets during 2007.

2007 Outlook

The following outlook represents management s expectations for key financial statement results in 2007. The outlook reflects expectations for growth rates in 2007 compared to the full year 2006 or for a range of expected results in 2007. Our outlook is based on current expectations as of the date of this report for results within our businesses; prevailing views related to economic growth, inflation, unemployment and other economic factors; and market forward interest rate

expectations. These expectations are inherently subject to risks and uncertainties. Please refer to the forward-looking statements on page 17 and the risk factors on pages 22-24 for more information.

Management expects that the annualized net charge-off ratio in the first quarter of 2007 will be below the range expected for the full year 2007. Management also expects that noninterest expense in the first quarter of 2007 will include a seasonal increase of approximately $15 million to $20 million in FICA and unemployment insurance expense compared to the fourth quarter of 2006. These first quarter expectations are included in the full-year outlook provided below.

Category	**Growth, Percentage or bp range**
Net interest income	High single digits
Net interest margin	3.35-3.45%
Noninterest income*	High single digits
Noninterest expense**	Mid single digits
Loans	High single digits
Core deposits	Mid single digits
Net charge-offs	Low to mid 50 bp
Effective tax rate	29-30%
Tangible equity/tangible asset ratio	2007 year-end target 7%

* *Comparison with the prior year excludes $415 million of losses recorded in noninterest income related to fourth quarter of 2006 balance sheet actions.*

** *Comparison with the prior year excludes $49 million of charges: $10 million in third quarter of 2006 related to the early retirement of debt and $39 million in fourth quarter of 2006 related to termination of financing agreements.*

RECENT ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (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 service period. As the

Bancorp has previously adopted the fair value recognition provisions of SFAS No. 123 using the retroactive restatement method described in SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123. The adoption of this Statement did not have a material impact on the Bancorp s 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 net actuarial losses and prior service cost as a reduction to accumulated other comprehensive income.

See Note 1 of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

CRITICAL ACCOUNTING POLICIES

Allowance for Loan and Lease Losses

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

significantly below legal lending limits and conservative underwriting, documentation and collections standards. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

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

Homogenous loans and leases, such as consumer installment, 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 determination of the allowance for commercial loans is sensitive to the risk grade it assigns to these loans. In the event that 10% of commercial loans in each risk category would experience a downgrade of one risk category, the allowance for commercial loans would increase by approximately $76 million at December 31, 2006. The Bancorp s determination of the allowance for residential and retail loans is sensitive to changes in estimated loss rates. In the event that estimated loss rates would increase by 10%, the allowance for residential and retail loans would increase by approximately $30 million at December 31, 2006. As several quantitative and qualitative factors are considered in determining the allowance for loan and lease losses, these sensitivity analyses do not necessarily reflect the nature and extent of future changes in the allowance for loan and lease losses. They are intended to provide insights into the impact of adverse changes in risk grades and inherent losses and do not imply any expectation of future deterioration in the risk rating or loss rates. Given current processes employed by the Bancorp, management believes the risk grades and inherent loss rates currently assigned are appropriate.

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 material aspect of its overall approach to determine its 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. Based on the procedures discussed above, the Bancorp is of the opinion that the allowance of $771 million was adequate, but not excessive, to absorb estimated credit losses associated with the loan and lease portfolio at December 31, 2006.

Valuation of 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 are reported at amortized cost. Available-for-sale and trading securities are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of related deferred income taxes, on the Consolidated Balance Sheets and noninterest income in the Consolidated Statements of 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 the Bancorp 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. At December 31, 2006, 95% of the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by 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 the movement in market interest rates. The Bancorp s management also maintains the intent and ability to hold securities in an unrealized loss position to the earlier of the recovery of losses or maturity.

Reserve for Unfunded Commitments

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

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. See Note 1 of the Notes to Consolidated Financial Statements for a discussion of the recently issued accounting statement, which clarifies the accounting for uncertainty in income taxes. As described in greater detail in Note 13 of the Notes to Consolidated Financial Statements, the Internal Revenue Service is currently challenging the Bancorp s tax treatment of certain leasing transactions. For additional information, see Note 21 of the Notes to Consolidated Financial Statements.

Valuation of Servicing Rights

When the Bancorp sells loans through either securitizations or individual loan sales in accordance with its investment policies, it often retains servicing rights. Servicing rights resulting from loan sales are amortized in proportion to and over the period of estimated net servicing revenues. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the

prepayment speeds of the underlying loans, the weighted-average life, the discount rate, the weighted-average coupon and the weighted-average default rate, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speeds.

The Bancorp monitors risk and adjusts its valuation allowance as necessary to adequately reserve for any probable impairment in the portfolio. For purposes of measuring impairment, the servicing rights are stratified based on the financial asset type and interest rates. In addition, the Bancorp obtains an independent third-party valuation of mortgage servicing rights (MSR) 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.

The change in the fair value of MSRs at December 31, 2006, due to immediate 10% and 20% adverse changes in the current prepayment assumption would be approximately $23 million and $45 million, respectively, and due to immediate 10% and 20% favorable changes in the current prepayment assumption would be approximately $25 million and $53 million, respectively. The change in the fair value of the MSR portfolio at December 31, 2006, due to immediate 10% and 20% adverse changes in the discount rate assumption would be approximately $19 million and $37 million, respectively, and due to immediate 10% and 20% favorable changes in the discount rate assumption would be approximately $20 million and $42 million, respectively. Sensitivity analysis related to other consumer and commercial servicing rights is not material to the Bancorp s Consolidated Financial Statements.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, change in fair value based on a 10% and 20% variation in assumptions typically cannot be extrapolated because the relationship of the change in assumptions to change in fair value may not be linear. Also, the effect of variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the effect of the Bancorp s non-qualifying hedging strategy, which is maintained to lessen the impact of changes in value of the MSR portfolio, is excluded from the above analysis.

RISK FACTORS

Fifth Third s results depend on general economic conditions within its operating markets.

Fifth Third is affected by general economic conditions in the United States as a whole and, in particular, the Midwest and Florida. An economic downturn within these markets or the nation as a whole could negatively impact household and corporate incomes. This impact may lead to decreased demand for both loan and deposit products and increase the number of customers who fail to pay interest or principal on their loans.

The revenues of FTPS are dependent on the transaction volume generated by its merchant and financial institution customers. This transaction volume is largely dependent on consumer and corporate spending. If consumer confidence suffers and retail sales decline, FTPS will be negatively impacted. Similarly, if an economic downturn results in a decrease in the overall volume of corporate transactions, FTPS will be negatively impacted. FTPS is also impacted by the financial stability of its merchant customers. FTPS assumes certain contingent liabilities related to the processing of Visa® and MasterCard® merchant card transactions. These liabilities typically arise from billing disputes between the merchant and the cardholder that are ultimately resolved in favor of the

cardholder. These transactions are charged back to the merchant and disputed amounts are returned to the cardholder. If FTPS is unable to collect these amounts from the merchant, FTPS will bear the loss.

The fee revenue of Investment Advisors is largely dependent on the fair market value of assets under care and trading volumes in the brokerage business. General economic conditions and their subsequent effect on the securities markets tend to act in correlation. When general economic conditions deteriorate, consumer and corporate confidence in securities markets erodes, and Investment Advisors revenues are negatively impacted as asset values and trading volumes decrease. Neutral economic conditions can also negatively impact revenue when stagnant securities markets fail to attract investors.

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

Fifth Third s income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond

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

Fifth Third s control, including general economic conditions and the policies of various governmental and regulatory agencies (in particular, the FRB). Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding. The impact of these changes may be magnified if Fifth Third does not effectively manage the relative sensitivity of its assets and liabilities to changes in market interest rates. Fluctuations in these areas may adversely affect Fifth Third and its shareholders.

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

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

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

Fifth Third is subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of its operations and limit the businesses in which Fifth Third may engage. These laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact Fifth Third or its ability to increase the value of its business. Additionally, actions by regulatory agencies or significant litigation against Fifth Third could cause it to devote significant time and resources to defending itself and may lead to penalties that materially affect Fifth Third and its shareholders. Future changes in the laws, including tax laws, or regulations or their interpretations or enforcement may also be materially adverse to Fifth Third and its shareholders or may require Fifth Third to expend significant time and resources to comply with such requirements.

Fifth Third is exposed to operational risk.

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

Negative public opinion can result from Fifth Third s actual or alleged conduct in activities, such as lending practices, data security, corporate governance and acquisitions, and may damage Fifth Third s reputation. Additionally, actions taken by government regulators and community organizations may also damage Fifth Third s reputation. This negative public opinion can adversely affect Fifth Third s ability to attract and keep customers and can expose it to litigation and regulatory action.

Fifth Third s necessary dependence upon automated systems to record and process its transaction volume poses the risk that technical system flaws or employee errors, tampering or manipulation of those systems will result in losses and may

be difficult to detect. Fifth Third may also be subject to disruptions of its operating systems arising from events that are beyond its control (for example, computer viruses or electrical or telecommunications outages). Fifth Third is further exposed to the risk that its outside service providers may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors as Fifth Third). These disruptions may interfere with service to Fifth Third s customers and result in a financial loss or liability.

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

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

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

Fifth Third enters into and maintains trading and investment positions in the capital markets on its own behalf and on behalf of its customers. These investment positions also include derivative financial instruments. The revenues and profits Fifth Third derives from its trading and investment positions are dependent on market prices. If it does not correctly anticipate market changes and trends, Fifth Third may experience investment or trading losses that may materially affect Fifth Third and its shareholders. Losses on behalf of its customers could expose Fifth Third to litigation, credit risks or loss of revenue from those customers. Additionally, substantial losses in Fifth Third s trading and investment positions could lead to a loss with respect to those investments and may adversely affect cash flows and funding costs.

Changes in accounting standards could impact reported earnings.

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

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

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. Two of Fifth Third s most critical estimates are the level of the allowance for loan and lease losses and the valuation of mortgage servicing rights. Due to the inherent nature of these estimates, Fifth Third cannot provide absolute assurance that it will not significantly increase the allowance for loan and lease losses and/or sustain credit losses that are significantly higher than the provided allowance, nor that it will not recognize a significant provision for impairment of its mortgage servicing rights. For more information on the sensitivity of these estimates, please refer to the Critical Accounting Policies section.

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

As Fifth Third continues to grow, its success depends, in large part, on its ability to attract and retain key individuals. Competition for qualified candidates in the activities and markets that Fifth Third serves is great and Fifth Third may not be able to hire these candidates and retain them. If Fifth Third is not able to hire or retain these key individuals, Fifth Third may be unable to execute its business strategies and may suffer adverse consequences to its business, operations and financial condition.

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

Fifth Third s ability to access the capital markets is important to its overall funding profile. This access is affected by the ratings assigned by rating agencies to Fifth Third, certain of its affiliates and particular classes of securities they issue. The interest rates that Fifth Third pays on its securities are also influenced by, among other things, the credit ratings that it, its affiliates and/or its securities receive from recognized rating agencies. A downgrade to Fifth Third s, or its affiliates , credit rating will affect its ability to access the capital markets, increase its borrowing costs and negatively impact its profitability. A ratings downgrade to Fifth Third, its affiliates or their securities could also create obligations or liabilities to Fifth Third under the terms of its outstanding securities that could increase Fifth Third s costs or otherwise have a negative effect on Fifth Third s results of operations or financial condition. Additionally, a downgrade of the credit rating of any particular security issued by Fifth Third or its affiliates could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

Fifth Third s stock price is volatile.

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

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

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

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

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

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

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

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

Inherent uncertainties exist in integrating the operations of an acquired entity. Fifth Third may not be able to fully achieve its strategic objectives and operating efficiencies in an acquisition. In addition, the markets and industries in which Fifth Third and its potential acquisition targets operate are highly competitive. Fifth Third may lose customers or the customers of acquired entities as a result of an acquisition. Future acquisition and integration activities may require Fifth Third to devote substantial time and resources and as a result Fifth Third may not be able to pursue other business opportunities. These factors could contribute to Fifth Third not achieving the expected benefits from its acquisitions within desired time frames, if at all.

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

STATEMENTS OF INCOME ANALYSIS

Net Interest Income

Net interest income is the interest earned on debt securities, loans and leases (including yield-related fees) and other interest-earning assets less the interest paid for core deposits and wholesale funding. The net interest margin is calculated by dividing net interest income by average interest-earning assets. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is greater than net interest rate spread due to the interest income earned on those assets that are funded by non-interest bearing liabilities, or free funding, such as demand deposits or shareholders equity.

The continued increases in short-term rates during the first half of 2006 and the subsequent inverted interest rate yield curve negatively impacted Fifth Third as well as other financial institutions in 2006. The average interest rate spread between the 3-month Treasury bill and the 10-year Treasury note compressed from 107 bp in 2005 to negative 6 bp in 2006. At December 31, 2006, this interest rate spread declined to negative 31 bp. This significant decline illustrates the relative pressure between shorter-term and longer-term funding costs and general securities portfolio reinvestment opportunities.

Net interest income declined three percent to $2.9 billion as a result of the net interest margin contracting 17 bp to 3.06%. The decline in the net interest margin occurred despite an increase in average loans and leases of eight percent and an increase in average core deposits of five percent. In terms of mix between volume and yield, net interest income decreased eight percent due to the impact of changes in interest rates. The decline in net interest margin largely resulted from the decrease in net interest spread, from 2.76% in 2005 to 2.37% in 2006, attributable to the increased cost of deposits and wholesale funding, the impact of the primarily fixed-rate securities portfolio and the change in mix within the core deposit base. The decrease in net interest spread was partially offset by an increased benefit from free funding of 69 bp in 2006, up 22 bp over 2005. The relatively large increase in the benefit of free funding was the result of higher funding costs and an improvement in the net free funding position of the Bancorp, calculated as total noninterest-bearing liabilities and shareholders equity less noninterest-earning assets, which increased two percent to $16.7 billion.

In light of the Bancorp s asset/liability considerations and changing market conditions, the Bancorp s Board of Directors

approved several actions on November 20, 2006 to strategically shift the composition of its balance sheet. These actions reduced the size of the Bancorp s available-for-sale securities portfolio to a size that is more consistent with its liquidity, collateral and interest rate risk management requirements; improved the composition of the balance sheet with a lower concentration of fixed-rate assets; lowered wholesale borrowings to reduce leverage; and better positioned the Bancorp for an uncertain economic and interest rate environment. Specifically, these actions included (i) the sale of $11.3 billion in available-for-sale securities with a weighted-average yield of 4.30%; (ii) reinvestment of approximately $2.8 billion in available-for-sale securities that are more efficient when used as collateral; (iii) repayment of $8.5 billion in wholesale borrowings at an average rate paid of 5.30%; and (iv) the termination of approximately $1.1 billion of repurchase and reverse repurchase agreements. These actions are expected to result in a benefit to net interest income in 2007, given current market expectations, of approximately $110 million to $120 million, and a benefit to the net interest margin in 2007 of approximately 35-40 bp.

The growth in average loans and leases in 2006 outpaced core deposit growth by $2.7 billion. The funding shortfall was more than offset by a $4.0 billion reduction in the average available-for-sale securities portfolio. In addition to the fourth quarter sale of available-for-sale securities mentioned above, throughout 2006, the Bancorp continued to use cash flows from its securities portfolio to reduce its reliance on wholesale funding. In the third quarter of 2006, the Bancorp also sold approximately $726 million from its securities portfolio, which represented nearly all of its position in Federal Home Loan Mortgage Corporation (FHLMC) callable debt, in order to manage its credit exposure to FHLMC. In 2006, wholesale funding represented 41% of interest-bearing liabilities, down from 44% in 2005.

During 2006, the Bancorp continued its deposit pricing strategy of moving away from promotional rates and towards highly competitive daily rates. As part of this strategy, the Bancorp maintains competitive deposit rates in all of its affiliate markets and across all of its deposit products. Additionally, interest-checking balances have continued to migrate into money market, savings and time deposit accounts. During 2006, interest-checking balances were 36% of average interest-bearing core deposits and savings and money market combined to represent 41%, compared to 44% and 36%, respectively, in 2005.

TABLE 3: CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 ($ in millions, except per share data)	**2006**	2005	2004	2003	2002
Interest income (FTE)	**$5,981**	5,026	4,150	4,030	4,168
Interest expense	**3,082**	2,030	1,102	1,086	1,430
Net interest income (FTE)	**2,899**	2,996	3,048	2,944	2,738
Provision for loan and lease losses	**343**	330	268	399	246
Net interest income after provision for loan and lease losses (FTE)	**2,556**	2,666	2,780	2,545	2,492
Noninterest income	**2,153**	2,500	2,465	2,483	2,183
Noninterest expense	**3,056**	2,927	2,972	2,551	2,337
Income from continuing operations before income taxes, minority interest and cumulative effect (FTE)	**1,653**	2,239	2,273	2,477	2,338
Fully taxable equivalent adjustment	**26**	31	36	39	39
Applicable income taxes	**443**	659	712	786	734
Income from continuing operations before minority interest and cumulative effect	**1,184**	1,549	1,525	1,652	1,565
Minority interest, net of tax	**-**	-	-	(20)	(38)
Income from continuing operations before cumulative effect	**1,184**	1,549	1,525	1,632	1,527
Income from discontinued operations, net of tax	**-**	-	-	44	4
Income before cumulative effect	**1,184**	1,549	1,525	1,676	1,531
Cumulative effect of change in accounting principle, net of tax	**4**	-	-	(11)	-
Net income	**$1,188**	1,549	1,525	1,665	1,531
Earnings per share, basic	**$2.14**	2.79	2.72	2.91	2.64
Earnings per share, diluted	**2.13**	2.77	2.68	2.87	2.59
Cash dividends declared per common share	**1.58**	1.46	1.31	1.13	.98

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

TABLE 4: CONSOLIDATED AVERAGE BALANCE SHEETS AND ANALYSIS OF NET INTEREST INCOME (FTE)

For the years ended December 31	**2006**			2005			2004		
($ in millions)	**Average Balance**	**Revenue/ Cost**	**Average Yield/Rate**	Average Balance	Revenue/ Cost	Average Yield/Rate	Average Balance	Revenue/ Cost	Average Yield/Rate
Assets									
Interest-earning assets:									
Loans and leases *(a)*:									
Commercial loans	**$20,400**	**$1,479**	**7.25%**	$18,241	$1,063	5.83%	$14,908	$682	4.57%
Commercial mortgage	**9,797**	**700**	**7.15**	8,923	551	6.17	7,391	387	5.23
Commercial construction	**6,015**	**460**	**7.64**	5,525	342	6.19	3,807	181	4.76
Commercial leases	**3,730**	**185**	**4.97**	3,495	179	5.11	3,296	181	5.49
Subtotal - commercial	**39,942**	**2,824**	**7.07**	36,184	2,135	5.90	29,402	1,431	4.87
Residential mortgage	**8,855**	**525**	**5.93**	8,396	463	5.52	6,454	357	5.52
Residential construction	**719**	**43**	**6.02**	586	32	5.48	347	17	4.99
Other consumer loans	**22,649**	**1,556**	**6.87**	20,749	1,216	5.86	18,542	947	5.10
Consumer leases	**1,328**	**63**	**4.72**	1,822	84	4.59	2,297	108	4.71
Subtotal - consumer	**33,551**	**2,187**	**6.52**	31,553	1,795	5.69	27,640	1,429	5.17
Total loans and leases	**73,493**	**5,011**	**6.82**	67,737	3,930	5.80	57,042	2,860	5.01
Securities:									
Taxable	**20,306**	**904**	**4.45**	24,017	1,032	4.30	29,365	1,217	4.15
Exempt from income taxes *(a)*	**604**	**45**	**7.38**	789	58	7.39	917	68	7.44
Other short-term investments	**378**	**21**	**5.52**	193	6	2.89	315	5	1.48
Total interest-earning assets	**94,781**	**5,981**	**6.31**	92,736	5,026	5.42	87,639	4,150	4.73
Cash and due from banks	**2,495**			2,758			2,216		
Other assets	**8,713**			8,102			5,763		
Allowance for loan and lease losses	**(751)**			(720)			(722)		
Total assets	**$105,238**			$102,876			$94,896		
Liabilities and Shareholders Equity									
Interest-bearing liabilities:									
Interest checking	**$16,650**	**$398**	**2.39%**	$18,884	$314	1.66%	$19,434	$174	.89%
Savings	**12,189**	**363**	**2.98**	10,007	176	1.76	7,941	58	.72
Money market	**6,366**	**261**	**4.10**	5,170	140	2.71	3,473	39	1.12
Other time deposits	**10,500**	**433**	**4.12**	8,491	263	3.09	6,208	162	2.62
Certificates -$100,000 and over	**5,795**	**278**	**4.80**	4,001	129	3.22	2,403	48	1.99
Foreign office deposits	**3,711**	**177**	**4.76**	3,967	126	3.17	4,449	58	1.31
Federal funds purchased	**4,148**	**208**	**5.02**	4,225	138	3.26	5,896	77	1.30
Short-term bank notes	**-**	**-**	**-**	248	6	2.60	1,003	15	1.46
Other short-term borrowings	**4,522**	**194**	**4.28**	5,038	138	2.74	6,640	78	1.14
Long-term debt	**14,247**	**770**	**5.40**	16,384	600	3.66	13,323	393	2.95
Total interest-bearing liabilities	**78,128**	**3,082**	**3.94**	76,415	2,030	2.66	70,770	1,102	1.56
Demand deposits	**13,741**			13,868			12,327		
Other liabilities	**3,558**			3,276			2,939		
Total liabilities	**95,427**			93,559			86,036		
Shareholders equity	**9,811**			9,317			8,860		
Total liabilities and shareholders equity	**$105,238**			$102,876			$94,896		
Net interest income margin		**$2,899**	**3.06%**		$2,996	3.23%		$3,048	3.48%
Net interest rate spread			**2.37**			2.76			3.17
Interest-bearing liabilities to interest-earning assets			**82.43**			82.40			80.75

(a) The net taxable-equivalent adjustments included in the above table are $26 million, $31 million and $36 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The cost of interest-bearing core deposits was 3.18% in 2006, up from 2.10% in 2005. Despite the increasing deposit rates, the relative cost advantage of interest-bearing core deposits compared to wholesale funding increased from 126 bp in 2005 to 183 bp in 2006. Due to the increasing relative cost advantage of core deposits, the Bancorp has continued to expand its branching network to increase its presence in markets that offer the best growth prospects. In 2006, the Bancorp added 51 net new banking centers with plans to add a similar amount in 2007.

Interest income (FTE) from loans and leases increased $1.1 billion, or 28%, compared to 2005. The increase resulted from the growth in average loans and leases of eight percent as well as a 102 bp increase in average rates. Average commercial loans and leases grew 10% in 2006 due to growth in all subcategories. The yield on commercial loans and leases expanded by 117 bp to 7.07% in 2006. The yield expansion was greatest in commercial loans and commercial construction due to the increase in short-term interest rates and the subsequent repricing. Average consumer loans and leases increased by six percent in 2006 driven primarily by the 23% increase in residential construction and nine percent increase in other consumer loans. Other consumer loans primarily consist of direct and indirect home equity lines and loans,

direct and indirect auto loans and credit cards. The average consumer loan and lease yield increased 83 bp to 6.52%.

Interest income (FTE) from investment securities and short-term investments decreased $126 million to $970 million in 2006 compared to 2005 due to the previously mentioned reduction of the investment securities portfolio. The average yield on taxable securities increased by only 15 bp as a result of the relative stability in longer-term interest rates.

The interest on core deposits increased $562 million, or 63%, in 2006 over 2005 due to increases in short-term interest rates and increasing average balances. Average interest-bearing core deposits increased $3.2 billion, or seven percent, compared to 2005. The Bancorp continues to focus on growing its core deposit balances in order to improve the funding mix and improve net interest margin trends. The growth in noninterest-bearing funds and other core deposits is a critical component in the growth of net interest income.

The interest on wholesale funding increased by $490 million, or 43%, in 2006 compared to 2005 due to increasing short-term interest rates partially offset by a $1.4 billion, or four percent, decrease in average balances. Throughout 2006, the Bancorp used the proceeds from the securities portfolio to lessen its reliance on wholesale funding in order to reduce leverage and better position the Bancorp for the uncertain rate environment.

Table 4 presents the components of net interest income, net interest margin and net interest spread for 2006, 2005 and 2004. Nonaccrual loans and leases and loans held for sale have been included in the average loan and lease balances. Average

outstanding securities balances are based on amortized cost with any unrealized gains or losses on available-for-sale securities included in other assets. Table 5 provides the relative impact of changes in the balance sheet and changes in interest rates on net interest income.

TABLE 5: CHANGES IN NET INTEREST INCOME (FTE) ATTRIBUTED TO VOLUME AND YIELD/RATE *(a)*

For the years ended December 31	**2006 Compared to 2005**			2005 Compared to 2004		
($ in millions)	**Volume**	**Yield/Rate**	**Total**	Volume	Yield/Rate	Total
Increase (decrease) in interest income:						
Loans and leases:						
Commercial loans	**$136**	**280**	**416**	171	210	381
Commercial mortgage	**57**	**92**	**149**	88	76	164
Commercial construction	**32**	**86**	**118**	96	65	161
Commercial leases	**11**	**(5)**	**6**	10	(12)	(2)
Subtotal - commercial	**236**	**453**	**689**	365	339	704
Residential mortgage	**26**	**36**	**62**	106	-	106
Residential construction	**8**	**3**	**11**	13	2	15
Other consumer loans	**118**	**222**	**340**	120	149	269
Consumer leases	**(23)**	**2**	**(21)**	(22)	(2)	(24)
Subtotal - consumer	**129**	**263**	**392**	217	149	366
Total loans and leases	**365**	**716**	**1,081**	$582	488	1,070
Securities:						
Taxable	**(164)**	**36**	**(128)**	(228)	43	(185)
Exempt from income taxes	**(13)**	**-**	**(13)**	(10)	-	(10)
Other short-term investments	**8**	**7**	**15**	(2)	3	1
Total change in interest income	**196**	**759**	**955**	342	534	876
Increase (decrease) in interest expense:						
Interest checking	**(41)**	**125**	**84**	(5)	145	140
Savings	**45**	**142**	**187**	18	100	118
Money market	**38**	**83**	**121**	26	75	101
Other time deposits	**71**	**99**	**170**	68	33	101
Certificates - $100,000 and over	**71**	**78**	**149**	42	39	81
Foreign office deposits	**(9)**	**60**	**51**	(7)	75	68
Federal funds purchased	**(3)**	**73**	**70**	(27)	88	61
Short-term bank notes	**(6)**	**-**	**(6)**	(9)	-	(9)
Other short-term borrowings	**(15)**	**71**	**56**	(23)	83	60
Long-term debt	**(86)**	**256**	**170**	103	104	207
Total change in interest expense	**65**	**987**	**1,052**	186	742	928
Total change in net interest income	**$131**	**(228)**	**(97)**	156	(208)	(52)

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

Provision for Loan and Lease Losses

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

The provision for loan and lease losses increased to $343 million in 2006 compared to $330 million in 2005. The $13 million increase from the prior year is due to both the increase in nonperforming assets from $361 million in 2005 to $455 million in 2006 and increased loan growth throughout the year. As of December 31, 2006, the allowance for loan and lease losses as a percent of loans and leases declined modestly to 1.04% from 1.06% at December 31, 2005.

Refer to the Credit Risk Management section for further information on the provision for loan and lease losses, net charge-offs and other factors considered by the Bancorp in assessing the credit quality of the loan portfolio and the allowance for loan and lease losses.

Noninterest Income

In 2006, the Bancorp refined its presentation of noninterest income in order to provide more granularity around its

revenue streams. The primary result of this refinement was the consolidation of the Bancorp s interest rate derivative sales, international service fees, institutional sales and loan and lease syndication fees into a new income statement line item titled corporate banking revenue.

Total noninterest income decreased 14% compared to 2005 primarily due to the impact of the previously mentioned balance sheet actions taken in the fourth quarter of 2006. Excluding the $415 million impact of these actions, noninterest income increased $68 million, or three percent, over 2005. The components of noninterest income are shown in Table 6.

Electronic payment processing revenue increased $109 million, or 15%, in 2006 as FTPS realized growth in each of its three product lines. Merchant processing revenue increased $45 million, or 13%, to $395 million due to the addition of new national merchant customers and resulting increases in merchant transaction volumes. EFT revenue increased $41 million, or 16%, to $297 million as a result of continued success in attracting financial institution customers. Card issuer interchange increased $23 million, or 16%, to $165 million on sales volume increases of 15%. The Bancorp continues to see significant opportunities in attracting new financial institution customers and retailers. The Bancorp handles electronic processing for over 142,000 merchant locations and 2,300 financial institutions worldwide, including The Kroger Co., Nordstrom, Inc., the Armed Forces Financial Network and, during 2006, added Talbots and Gregg Appliances, Inc.

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

TABLE 6: NONINTEREST INCOME

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Electronic payment processing revenue	**$857**	748	631	593	528
Service charges on deposits	**517**	522	515	485	431
Mortgage banking net revenue	**155**	174	178	302	188
Investment advisory revenue	**367**	358	363	335	325
Corporate banking revenue	**318**	299	228	241	195
Other noninterest income	**300**	360	587	443	369
Securities gains (losses), net	**(364)**	39	(37)	81	114
Securities gains, net non-qualifying hedges on mortgage servicing rights	**3**	-	-	3	33
Total noninterest income	**$2,153**	2,500	2,465	2,483	2,183

TABLE 7: COMPONENTS OF MORTGAGE BANKING NET REVENUE

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Origination fees and gains on loan sales	**$92**	128	112	353	252
Servicing revenue:					
Servicing fees	**121**	109	109	114	132
Servicing rights amortization	**(68)**	(73)	(93)	(176)	(156)
Net valuation adjustments on servicing rights and free-standing derivatives entered into to economically hedge MSR	**10**	10	50	11	(40)
Net servicing revenue	**63**	46	66	(51)	(64)
Mortgage banking net revenue	**$155**	174	178	302	188

Service charges on deposits were relatively flat compared to 2005. Commercial deposit revenues were comparable to the prior year as the overall growth in commercial account relationships was offset by a 34% increase in earnings credits on compensating balances as a result of the higher interest rate environment. Retail deposit revenues were flat in 2006 compared to 2005. Net new consumer deposit account production increased by 40% during 2006 compared to 2005. However, the production increase was offset by lower consumer overdraft fees. Growth in the number of customer deposit account relationships and deposit generation continues to be a primary focus of the Bancorp.

Mortgage banking net revenue decreased to $155 million in 2006 from $174 million in 2005. The components of mortgage banking net revenue are shown in Table 7. Origination fees and gains on loans sales decreased $36 million due to lower origination volume, the increasingly competitive nature of the business and the effects of the inverted yield curve. Originations in 2006 were $9.4 billion compared to $9.9 billion in 2005.

Mortgage net servicing revenue increased by $17 million compared to 2005. Net servicing revenue is comprised of gross servicing fees and related amortization as well as valuation adjustments on mortgage servicing rights and mark-to-market adjustments on both settled and outstanding free-standing derivative financial instruments. The Bancorp s total residential mortgage loans serviced at December 31, 2006 and 2005 were $37.9 billion and $34.0 billion, respectively, with $28.7 billion and $25.7 billion, respectively, of residential mortgage loans serviced for others.

The increase in interest rates and the resulting decrease in changing prepayment speeds led to a recovery in temporary impairment of $19 million in 2006 and $33 million in 2005. Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing rates. Temporary impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. Further detail on the valuation of mortgage servicing rights can be found in Note 7 of the Notes to Consolidated Financial Statements. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with the impact of changes in interest rates on the MSR portfolio. 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 of the Notes to Consolidated Financial Statements for more information on the free-standing derivatives used to hedge the MSR portfolio. In addition to the derivative positions used to economically hedge the MSR portfolio, the Bancorp began to acquire various securities (primarily principal-only strips) during 2005 as a component of its non-qualifying hedging strategy. A gain of $3 million was recognized in 2006 on the sale of securities used to hedge the MSR portfolio.

Investment advisory revenues were up modestly in 2006 compared to 2005. Private client revenues increased $10 million, or eight percent due to growth in nearly all subcategories on the strength of cross-sell initiatives within the private client group. This increase was partially offset by a decrease in mutual fund fees of $7 million, or 10%, reflecting the effects of a shift toward a greater open architecture framework where investors are provided with other mutual fund options in addition to the family of Fifth Third Funds.* The Bancorp continues to focus its sales efforts on improving execution in retail brokerage and retail mutual funds and on growing the institutional money management business by improving penetration and cross-sell in its large middle-market commercial customer base. The Bancorp is one of the largest money managers in the Midwest and as of December 31, 2006 had approximately $220 billion in assets under care, $34 billion in assets under management and $12 billion in its proprietary Fifth Third Funds.*

Compared to 2005, corporate banking revenue increased $19 million primarily due to a $13 million, or 13%, increase in commercial syndication fees. Other increases included a $4 million, or five percent, increase in derivative product revenues and $2 million, or six percent, increase in underwriting revenues. The Bancorp is committed to providing a comprehensive range of financial services to large and middle-market businesses and continues to see opportunities to expand its product offering.

The major components of other noninterest income for each of the last five years are shown in Table 8. Other noninterest income declined 17% compared to the prior year. The decrease was primarily attributable to the continued planned run off in the consumer operating lease portfolio and a $17 million loss in mark-to-market free-standing derivatives related to the balance sheet actions taken in the fourth quarter. Operating lease revenues in

---

***FIFTH THIRD FUNDS® PERFORMANCE DISCLOSURE**

Fifth Third Funds investments are: NOT INSURED BY THE FDIC or any other government agency, are not deposits or obligations of, or guaranteed by, any bank, the distributor or of the Funds any of their respective affiliates, and involve investment risks, including the possible loss of the principal amount invested. *An investor should consider the fund s investment objectives, risks and charges and expenses carefully before investing or sending money. The Funds prospectus contains this and other important information about the Funds. To obtain a prospectus or any other information about Fifth Third Funds, please call 1-800-282-5706 or visit www.53.com. Please read the prospectus carefully before investing. Fifth Third Funds are distributed by Fifth Third Funds Distributor, Inc., 3435 Stelzer Road, Columbus, Ohio 43219.*

2006 consisted of commercial operating lease revenues that increased $10 million to $18 million and consumer operating lease revenues that decreased $39 million to $8 million compared to 2005. Operating lease revenues will moderate throughout 2007 as automobile leases continue to mature and are offset by originations of commercial operating leases.

The Bancorp recognized net securities losses of $364 million in 2006. Securities losses in 2006 primarily consisted of losses resulting from balance sheet actions taken during the fourth quarter of 2006 partially offset by a $78 million gain from the sale of MasterCard, Inc. shares.

TABLE 8: COMPONENTS OF OTHER NONINTEREST INCOME

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Cardholder fees	**$49**	46	39	41	36
Consumer loan and lease fees	**47**	50	57	65	70
Operating lease income	**26**	55	156	124	-
Bank owned life insurance income	**86**	91	61	62	62
Insurance income	**28**	27	28	25	55
Gain on sales of third-party sourced merchant processing contracts	**-**	-	157	-	-
Other	**64**	91	89	126	146
Total other noninterest income	**$300**	360	587	443	369

Noninterest Expense

The Bancorp continued to focus on expense control during 2006 and expects growth in noninterest expenses to be consistent with recent trends through 2007. Cost savings initiatives will continue to be somewhat mitigated by investments in certain high opportunity markets, as evidenced by the de novo banking centers added in 2006.

During 2006, the Bancorp continued its investment in the expansion of the retail distribution network and in its information technology infrastructure. The efficiency ratio (noninterest expense divided by the sum of net interest income (FTE) and noninterest income) was 60.5% and 53.2% for 2006 and 2005, respectively, and was affected by the balance sheet actions during the fourth quarter of 2006. Excluding fourth quarter balance sheet actions, the efficiency ratio for 2006 was 55.2%; comparison being provided to supplement an understanding of fundamental trends. Total noninterest expense increased four percent in 2006 compared to 2005. This comparison is impacted by $49 million of debt and other financing agreement termination charges. Exclusive of these charges, total noninterest expense increased by $80 million, or three percent, over 2005 primarily due to increases in volume-related bankcard costs and occupancy expenditures related to the addition of de novo banking centers.

Total personnel cost (salaries, wages and incentives plus employee benefits) increased by four percent in 2006 compared to 2005. The increases are related to employee incentives, increased medical insurance costs and a change in

accounting for retirement eligible stock compensation as a result of the implementation of SFAS 123(R). See Note 18 of the Notes to Consolidated Financial Statements for additional information regarding stock-based compensation. As of December 31, 2006, the Bancorp employed 22,385 employees, of which 6,140 were officers and 2,715 were part-time employees. Full time equivalent employees totaled 21,362 as of December 31, 2006 compared to 21,681 as of December 31, 2005.

Net occupancy expenses increased 11% in 2006 over 2005 due to the addition of 51 net new banking centers. The Bancorp remains focused on expanding its retail franchise through de novo growth with plans to open approximately 50 net new banking centers in 2007.

Total other noninterest expense increased three percent in 2006 compared to 2005 primarily due to volume-related bankcard costs and previously mentioned debt and other financing agreement termination charges. Exclusive of these termination charges, other noninterest income decreased $11 million, or one percent. Marketing expense was stable compared to the prior year and remains primarily focused on deposit generation. Bankcard expense increased 16% compared to last year due to an increase in the number of merchant and retail customers as well as continuing growth in debit and credit card usage. Operating lease expense declined 55% from 2005 as a result of the continued planned run off of the automobile operating lease portfolio as noted above.

TABLE 9: NONINTEREST EXPENSE

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Salaries, wages and incentives	**$1,174**	1,133	1,018	1,031	1,029
Employee benefits	**292**	283	261	240	201
Equipment expense	**122**	105	84	82	79
Net occupancy expense	**245**	221	185	159	142
Other noninterest expense	**1,223**	1,185	1,424	1,039	886
Total noninterest expense	**$3,056**	2,927	2,972	2,551	2,337

TABLE 10: COMPONENTS OF OTHER NONINTEREST EXPENSE

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Marketing and communications	**$124**	126	99	99	96
Postal and courier	**49**	50	49	49	48
Bankcard	**317**	271	224	197	170
Loan and lease	**93**	89	82	106	91
Travel	**52**	54	41	35	38
Information technology and operations	**112**	114	87	76	54
Operating lease	**18**	40	114	94	-
Debt and other financing agreement termination	**49**	-	325	20	-
Other	**409**	441	403	363	389
Total other noninterest expense	**$1,223**	1,185	1,424	1,039	886

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

TABLE 11: APPLICABLE INCOME TAXES

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Income from continuing operations before income taxes, minority interest and cumulative effect	**$1,627**	2,208	2,237	2,438	2,299
Applicable income taxes	**443**	659	712	786	734
Effective tax rate	**27.2%**	29.9	31.8	32.3	31.9

Applicable Income Taxes

The Bancorp s income from continuing operations before income taxes, applicable income tax expense and effective tax rate for each of the periods indicated are shown in Table 11. Applicable income tax expense for all periods includes the benefit from tax-exempt income, tax-advantaged investments and general business tax credits, partially offset by the effect of nondeductible expenses. In 2006, the lower pretax income combined with tax credits at a level consistent with the prior years and favorable resolution of certain tax examinations resulted in a decrease in the effective tax rate. In 2007, the Bancorp expects the effective tax rate to be approximately 29%-30%.

Cumulative Effect of Change in Accounting Principle

In the first quarter of 2006, the Bancorp recognized a benefit of approximately $4 million, net of $2 million of tax, related to the adoption of SFAS No. 123(R). The benefit recognized relates to the Bancorp s estimate of forfeiture experience to be realized for all unvested stock-based awards outstanding.

Comparison of 2005 with 2004

Net income in 2005 increased $24 million compared to 2004. Diluted earnings per common share were $2.77 compared to $2.68. In 2005, return on average assets was 1.50% and return on average shareholders equity was 16.6% versus 1.61% and 17.2%, respectively, in 2004. Net income in 2004 was negatively impacted by balance sheet actions, which included debt termination charges and securities losses totaling $404 million pretax. Earnings were positively impacted by a $157 million pretax gain resulting from the sale of certain third- party sourced merchant processing contracts in 2004 and securities gains totaling $39 million pretax in 2005.

Net interest income (FTE) decreased $52 million in 2005 compared to 2004. The net interest margin decline to 3.23% in 2005 from 3.48% in 2004 was primarily attributable to the rise in short-term interest rates, the impact of the primarily fixed-rate securities portfolio and mix shifts within the core deposit base. The decline in net interest margin occurred despite a six percent increase in average interest-earning assets from 2004 to 2005.

Noninterest income increased $35 million in 2005 compared to 2004. The comparison to 2004 is impacted by the gain on sale of certain third-party sourced merchant processing contracts in 2004. Exclusive of this gain, noninterest income increased eight percent compared to 2005. The increase in noninterest income was attributable to increased electronic payment processing revenue and corporate banking revenue offset by a decrease in operating lease revenue as a result of the run off of the automobile operating lease portfolio.

Noninterest expense decreased $45 million in 2005 compared to 2004. Increases in salaries, wages and incentives were offset by the previously discussed debt termination charges in 2004 totaling $325 million. The increased salaries, wages and incentives were a result of the sales force expansion and the addition of employees from the acquisition of First National Bankshares of Florida, Inc. on January 1, 2005.

The provision for loan and lease losses was $330 million in 2005 compared to $268 million in 2004. The increase in the provision was due to the increase in nonperforming assets as well as a 17% portfolio loan growth. The total allowance for loan and lease losses as a percent of total loans and leases was 1.06% at December 31, 2005 compared to 1.19% at December 31, 2004.

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

BUSINESS SEGMENT REVIEW

The Bancorp reports on five business segments: 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. Further detailed financial information on each business segment is included in Note 28 of the Notes to Consolidated Financial Statements.

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 its 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 and the Treasury swap curve. Matching the duration, or the effective term until an instrument can be repriced, allocates interest income and interest expense to each segment so its resulting net interest income is insulated from interest rate risk. In a rising rate environment, the Bancorp benefits from widening spread between deposit costs and wholesale funding costs. However, the Bancorp s FTP system credits this benefit to deposit providing businesses, such as Branch Banking and Investment Advisors, on a duration-adjusted basis. The net impact of the FTP methodology, including the benefit from the widening spread between deposit costs and wholesale funding, is captured in Other/Eliminations. During the fourth quarter of 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 period results have been conformed to current period presentation.

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. Net income by business segment is summarized in the table below.

TABLE 12: BUSINESS SEGMENT NET INCOME

For the years ended December 31 ($ in millions)	2006	2005	2004
Income Statement Data			
Commercial Banking	**$651**	614	563
Branch Banking	**570**	548	620
Consumer Lending	**137**	160	211
Investment Advisors	**81**	76	96
Processing Solutions	**180**	117	204
Other/Eliminations	**(431)**	34	(157)
Acquisitions	**-**	-	(12)
Net income	**$1,188**	1,549	1,525

Commercial Banking

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

TABLE 13: COMMERCIAL BANKING

For the years ended December 31

($ in millions)	2006	2005	2004
Income Statement Data			
Net interest income (FTE) (a)	**$1,254**	1,190	1,104
Provision for loan and lease losses	**105**	97	82
Noninterest income:			
Corporate banking revenue	**304**	287	217
Service charges on deposits	**147**	153	155
Other noninterest income	**64**	54	37
Noninterest expense:			
Salaries, incentives and benefits	**240**	239	196
Other noninterest expenses	**521**	478	414
Income before taxes	**903**	870	821
Applicable income taxes (a)	**252**	256	258
Net income	**$651**	614	563
Average Balance Sheet Data			
Commercial loans	**$33,559**	30,373	27,267
Demand deposits	**6,153**	6,291	6,197
Interest checking	**3,888**	3,165	2,455
Savings and money market	**5,181**	4,958	3,642
Certificates over $100,000	**1,734**	1,099	647

(a) Includes taxable-equivalent adjustments of $13 million for 2006, 2005 and 2004.

Net income increased $37 million, or six percent, compared to 2005 largely as a result of loan and deposit growth and success in the sale of corporate banking services. Average loans and leases increased 11% over 2005, to $33.6 billion, with growth occurring across all loan categories. The moderate decrease in average demand deposits from the prior year primarily due to lower relative compensating balance requirements was more than offset by increases in interest checking and savings and money market deposits. Average core deposits increased to $15.2 billion in 2006 from $14.4 billion in 2005. The increase in average core deposits and loans and leases and the related net FTP impact led to a $64 million increase in net interest income compared to the prior year. The provision for loan and lease losses, which now equals net charge-offs, increased $8 million over 2005. Net charge-offs as a percent of average loans remained flat at 31 bp in 2006 compared to 32 bp in 2005 and 30 bp in 2004.

Noninterest income increased $21 million, or four percent, compared to 2005 largely due to an increase in corporate banking revenue of $17 million, or six percent. Increases in corporate banking revenue occurred in nearly all sub captions. Other noninterest income fee lines displayed mixed results compared to the prior year, as operating lease income grew from $8 million to $18 million, while service charges on deposits decreased four percent due largely to increased earnings credits.

Noninterest expense increased $44 million, or six percent, in 2006 compared to 2005 primarily due to volume-related increases in loan, bankcard, operating lease and data processing expenses.

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

Branch Banking

Branch Banking provides a full range of deposit and loan and lease products to individuals and small businesses through 1,150 banking centers. Branch Banking offers depository and loan products, such as checking and savings accounts, home equity lines of credit, credit cards and loans for automobile and other personal financing needs, as well as products designed to meet the specific needs of small businesses, including cash management services. The table below contains selected financial data for the Branch Banking segment.

TABLE 14: BRANCH BANKING

For the years ended December 31

($ in millions)	2006	2005	2004
Income Statement Data			
Net interest income	**$1,290**	1,251	1,247
Provision for loan and lease losses	**101**	91	70
Noninterest income:			
Electronic payment processing	**195**	164	132
Service charges on deposits	**358**	359	365
Investment advisory revenue	**87**	86	86
Other noninterest income	**123**	107	99
Noninterest expense:			
Salaries, incentives and benefits	**451**	456	398
Net occupancy and equipment expenses	**153**	137	128
Other noninterest expenses	**468**	437	393
Income before taxes	**880**	846	940
Applicable income taxes	**310**	298	320
Net income	**$570**	548	620
Average Balance Sheet Data			
Consumer loans	**$11,391**	10,687	9,382
Commercial loans	**4,297**	3,995	3,416
Demand deposits	**5,602**	5,649	5,048
Interest checking	**10,552**	13,452	15,928
Savings and money market	**11,755**	9,045	7,807
Time deposits	**11,352**	9,173	7,554

Net income increased $22 million, or four percent, compared to 2005. Net interest income increased $39 million as increases in average loans and leases and total deposits were partially offset by a deposit mix shift toward higher paying deposit account types. Average loans and leases increased seven percent to $15.7 billion, led by growth in credit cards of 21% and small business loans of eight percent. Branch Banking continued to realize a shift to higher-rate deposit products throughout 2006. Interest checking and demand deposits decreased $2.9 billion, or 15%, and savings, money market and other time deposits increased $4.9 billion, or 27%, compared to 2005. The provision for loan and lease losses increased $10 million over 2005. Net charge-offs as a percent of average loans and leases increased slightly from 62 bp to 64 bp.

Noninterest income increased seven percent from 2005. Electronic payment processing revenue increased due to a $27 million, or 20%, increase in card issuer interchange and a $7 million, or 26%, increase in cardholder fees. The Bancorp expects interchange and cardholder fees to continue to grow due to the increased emphasis on cross-selling credit cards to its existing customer base.

Noninterest expense increased by four percent compared to 2005 as costs were contained despite the effect from the Bancorp s continued de novo banking center growth strategy. Net occupancy and equipment expenses increased 11%

compared to 2005 as a result of the continued opening of new banking centers. 51 banking centers were opened in 2006, and 63 in 2005, that did not involve the relocation or consolidation of existing facilities. The Bancorp will continue to position itself for sustained long-term growth through new banking center additions. Card processing expenses increased $15 million on greater sales volumes, and marketing expenses increased $8 million primarily related to attracting new core deposit accounts.

Consumer Lending

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

TABLE 15: CONSUMER LENDING

For the years ended December 31

($ in millions)	2006	2005	2004
Income Statement Data			
Net interest income	**$380**	397	421
Provision for loan and lease losses	**94**	90	84
Noninterest income:			
Mortgage banking net revenue	**148**	165	167
Other noninterest income	**81**	125	227
Noninterest expense:			
Salaries, incentives and benefits	**101**	98	102
Other noninterest expenses	**202**	252	309
Income before taxes	**212**	247	320
Applicable income taxes	**75**	87	109
Net income	**$137**	160	211
Average Balance Sheet Data			
Consumer loans	**$20,430**	19,161	17,536

Net income decreased $23 million, or 14%, compared to 2005. Net interest income decreased $17 million, or four percent, despite average loans and leases increasing seven percent, due to a 17 bp decline in the spread between loan yields and the related FTP charge as a result of the shift in the mix of loans and the increasingly competitive environment in which this segment competes. The Bancorp is focused on meeting its customers varying financial needs by offering new consumer products while maintaining its current credit quality profile.

The Bancorp had mortgage originations of $9.4 billion, $9.9 and $8.4 billion in 2006, 2005 and 2004, respectively. As a result of the decrease in originations and the corresponding decrease in gains on sales of mortgages, mortgage banking net revenue decreased $17 million, or 10%. Decreases in other noninterest income and expense were largely a result of the planned run off of the consumer operating lease portfolios. Operating lease income and expense decreased from 2005 by $39 million and $29 million, respectively. As the operating lease portfolio is nearing maturity, operating lease income and expense should have an immaterial effect on 2007 results.

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

Investment Advisors

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

TABLE 16: INVESTMENT ADVISORS

For the years ended December 31

($ in millions)	2006	2005	2004
Income Statement Data			
Net interest income	**$125**	131	129
Provision for loan and lease losses	**3**	4	2
Noninterest income:			
Investment advisory revenue	**367**	360	367
Other noninterest income	**19**	16	19
Noninterest expense:			
Salaries, incentives and benefits	**172**	170	148
Other noninterest expenses	**211**	215	220
Income before taxes	**125**	118	145
Applicable income taxes	**44**	42	49
Net income	**$81**	76	96
Average Balance Sheet Data			
Loans and leases	**$3,068**	2,684	2,176
Core deposits	**4,499**	3,976	3,487

Net income increased $5 million, or six percent, compared to 2005 as a result of modest growth in investment advisory revenue and a decline in noninterest expense. Net interest income declined four percent to $125 million due to the decline in interest rate spread as a result of the continued mix shift to higher cost deposit products. The negative impact of the shift in deposit mix more than offset the $384 million, or 14%, increase in average loans and leases in 2006.

Noninterest income increased three percent from 2005 as the $7 million increase in private client revenues was mitigated by a decrease in mutual fund revenue of $3 million. The decrease in mutual fund revenue was primarily the result of the deployment of an open architecture on proprietary fund sales. Noninterest expenses decreased modestly compared to the prior year due to the focus on expense control. Employee compensation is expected to increase in 2007 as the Bancorp looks to expand its sales force throughout its footprint, particularly in retail brokerage.

Processing Solutions

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

TABLE 17: PROCESSING SOLUTIONS

For the years ended December 31

($ in millions)	2006	2005	2004
Income Statement Data			
Net interest income	**$33**	28	29
Provision for loan and lease losses	**10**	18	10

Noninterest income:			
Merchant processing	**397**	351	305
EFT processing	**297**	257	219
Other noninterest income	**88**	25	173
Noninterest expense:			
Salaries, incentives and benefits	**71**	53	50
Net occupancy and equipment expenses	**13**	6	7
Transaction processing	**303**	253	205
Other noninterest expenses	**140**	150	145
Income before taxes	**278**	181	309
Applicable income taxes	**98**	64	105
Net income	**$180**	117	204

Net income increased $63 million versus the prior year. Excluding the $78 million of pretax securities gains from the sale of the Bancorp s MasterCard, Inc. shares, included in other noninterest income, net income increased 10% compared to 2005, as electronic payment processing revenues continued to produce double-digit increases. Merchant and EFT revenues increased by 13% and 15% primarily due to new customer additions and related increased volume. 2004 results are affected by the sale of certain third-party sourced merchant processing contracts that resulted in a pretax gain of $157 million. The Bancorp continues to see opportunities to attract new financial institution customers and retailers within this business segment.

The strong increase in noninterest income was mitigated by a 14% increase in noninterest expense due to headcount additions, investment in information technology and transaction processing costs. Salaries, incentives and benefits increased 33% with the addition of over 300 employees. The 20% increase in transaction processing costs compared to 2005 primarily resulted from network membership fees and volume-related costs as the number of merchant transactions processed increased 17% over 2005.

Other/Eliminations

Other/Eliminations includes the unallocated portion of the investment securities portfolio, certain wholesale funding, unassigned equity and certain support activities, provision expense in excess of net charge-offs and other items not attributed to the business segments.

The results of Other/Eliminations were primarily impacted by the balance sheet actions in the fourth quarter of 2006 and the related loss on the sale of securities. Other/Eliminations was also impacted by wholesale funding repricing at a faster rate than securities as a result of rising short-term rates in the first half of 2006. The Bancorp experienced an increase in the average interest rate on wholesale funding from 3.36% in 2005 to 5.02% in 2006 compared to an increase in the average interest rate on securities from 4.36% in 2005 to 4.56% in 2006.

FOURTH QUARTER REVIEW

The Bancorp s 2006 fourth quarter earnings per diluted share were $.12 compared to $.60 per diluted share for the same period in 2005. Fourth quarter net income totaled $66 million compared to $332 million in the same quarter last year. Fourth quarter 2006 earnings and ratios were negatively impacted by $454 million in total pretax losses and charges related to balance sheet actions taken to improve the asset/liability profile of the Bancorp. The pretax losses and charges consisted of $398 million in losses on the sale of $11.3 billion in available-for-sale securities; $17 million in losses on derivatives related to the securities sold, recorded in other noninterest income; and $39 million in charges related to the termination of the repurchase and reverse agreements, recorded in other noninterest expense. Return on average assets and return on average equity were .25% and 2.6%, respectively, compared to 1.27% and 13.9% in 2005 s fourth quarter. The Bancorp s efficiency ratio was 82.9% in the fourth quarter compared to 55.6% last year and 55.5% in the previous quarter.

Compared to the fourth quarter of 2005, net interest income (FTE) increased one percent, reflecting a two percent decline in earning assets and 5 bp improvement of the net interest margin (FTE). Compared to the third quarter of 2006, net interest income (FTE) increased by $25 million and was primarily driven by the sale of available-for-sale securities and repayment of $8.5 billion in wholesale borrowings. Solid trends in loan growth and greater stability in deposit pricing also contributed to the increase. The improvement in net interest margin in the fourth quarter was primarily due to the sales of securities, stronger core deposit growth and improved loan yields.

Overall noninterest income, excluding balance sheet actions taken in the fourth quarter, remained flat compared to the same quarter last year and increased three percent on a sequential basis.

Electronic payment processing revenues increased 14% over the same quarter last year reflecting double-digit growth in merchant processing and card interchange, though growth was mitigated by the effects of slower consumer spending throughout 2006.

Deposit service revenue decreased eight percent compared to the same quarter last year. Retail deposit revenue decreased 10% reflecting significantly lower consumer overdraft fees. The Bancorp has been encouraging its customers to enroll in overdraft protection as a means to establish stronger relationships and improve account retention. Commercial deposit revenue decreased five percent due to increased earnings credits on compensating balances.

Mortgage banking net revenue totaled $30 million in the fourth quarter compared to $42 million in the prior year fourth quarter. The decline was primarily due to decreased origination fees and lower gains on loan sales, reflecting lower market spreads. Mortgage originations were $2.3 billion in the fourth quarter and $2.5 billion in the fourth quarter of last year. Fourth quarter mortgage banking net servicing revenue totaled $7 million and was comprised of $31 million in total mortgage servicing fees, less $19 million in amortization and $5 million in net valuation adjustments on mortgage servicing rights.

Investment advisory revenues increased by four percent over the same quarter last year. The increase was driven by strong growth in private banking and moderate growth in the retail securities and institutional businesses, partially offset by lower mutual fund fees reflecting the ongoing effect of open architecture on proprietary fund sales.

Corporate banking revenue for the fourth quarter 2006 decreased 11% compared to the same quarter last year. The decrease was primarily due to unusually strong fourth quarter 2005 lease syndication fees, as well as lower letter of credit and customer interest rate derivative income.

Other noninterest income totaled $58 million in the fourth quarter compared to $77 million in the same quarter last year. The decrease from the prior year quarter was a result of the $17 million in losses on derivatives related to securities sold as part of the balance sheet actions taken in this year s fourth quarter. Other noninterest income decreased by $29 million compared to the third quarter of 2006. Comparisons to the third quarter reflect the losses on derivatives mentioned above, in addition to $11 million in gains related to the third quarter sales of three Indiana branches and a small out-of-footprint credit card portfolio.

Total noninterest expense increased by five percent compared to the same quarter last year. Comparisons reflect a $39 million charge in the fourth quarter of 2006 associated with the termination of financing agreements as part of the balance sheet actions taken and approximately $9 million in fraud-related expenses and approximately $10 million in tax-related expense in the fourth quarter 2005. Excluding the above-mentioned items, noninterest expense increased two percent due to higher personnel expense and de novo related occupancy expense. Compared to the third quarter of 2006, total noninterest expense increased by $31 million primarily due to higher processing volume-related expenses and the $39 million in termination of financing agreements mentioned above, offset by $11 million in charges for the early retirement of debt and $8 million in pension settlement expenses incurred in the third quarter.

Net charge-offs as a percentage of average loans and leases were 52 bp in the fourth quarter, compared to 43 bp last quarter and 67 bp in the fourth quarter of 2005. Net charge-offs were $97 million in the fourth quarter, compared to $79 million in the third quarter of 2006 and $117 million in the same quarter last year. The increase from the last quarter resulted from two large commercial credits totaling $9 million, higher small business charge-offs and higher indirect consumer losses. Fourth quarter 2005 numbers reflect an elevated level of net charge-offs associated with approximately $27 million in losses from bankrupt commercial airline carriers and a $15 million increase in consumer loan and lease losses associated with increased personal bankruptcies declared prior to enacted reform legislation in 2005. The provision for loan and lease losses totaled $107 million in the fourth quarter compared to $87 million in the third quarter of 2006 and $134 million in the same quarter last year.

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

BALANCE SHEET ANALYSIS

TABLE 18: COMPONENTS OF TOTAL LOANS AND LEASES (INCLUDING HELD FOR SALE)

As of December 31 ($ in millions)	2006	2005	2004	2003	2002
Commercial:					
Commercial loans	**$ 20,725**	19,299	16,058	14,226	12,786
Commercial mortgage	**10,405**	9,188	7,636	6,894	5,885
Commercial construction	**6,168**	6,342	4,348	3,301	3,009
Commercial leases	**3,841**	3,698	3,426	3,264	3,019
Total commercial loans and leases	**41,139**	38,527	31,468	27,685	24,699
Consumer:					
Residential mortgage	**9,226**	8,296	7,533	5,530	6,804
Residential construction	**679**	695	378	335	319
Credit card	**1,110**	866	843	762	537
Home equity	**12,365**	12,000	10,508	8,993	8,675
Other consumer loans	**9,911**	9,250	7,586	8,436	5,909
Consumer leases	**1,073**	1,595	2,051	2,448	2,343
Total consumer loans and leases	**34,364**	32,702	28,899	26,504	24,587
Total loans and leases	**$ 75,503**	71,229	60,367	54,189	49,286

Loans and Leases

Total loans and leases increased six percent compared to December 31, 2005. Table 18 presents the Bancorp s total commercial and consumer loan and lease portfolio by the primary purpose of the loan. During 2006, the Bancorp reviewed its loan classifications, which resulted in a reclassification of approximately $450 million of commercial loans to commercial mortgage. The impact to average loans was immaterial as the reclassification took place at the end of 2006. Prior year balances were not restated. Total loans and leases grew in over half of its affiliates with double-digit growth in the Cleveland, Detroit, Lexington, Nashville, Orlando and Tampa markets.

Total commercial loans and leases increased $2.6 billion, or seven percent, compared to the prior year. Excluding the impact of the 2006 reclassification, commercial loans increased $1.9 billion or 10%, and commercial mortgage increased by approximately $800 million, or eight percent, compared to December 31, 2005. The mix of commercial loans was consistent with the prior year.

Total consumer loans and leases increased five percent compared to December 31, 2005 as a result of the introduction of new residential mortgage products and increased promotion

of credit cards. Residential mortgage loans increased $930 million, or 11%, compared to 2005. Comparisons to prior years are dependent upon the volume and timing of originations as well as the timing of loan sales. Residential mortgage originations totaled $9.4 billion in 2006 compared to $9.9 billion in 2005. Credit card balances increased 28% to $1.1 billion. A key focus for the Bancorp in 2007 is increasing its penetration of credit cards within in its retail footprint. Consumer lease balances decreased 33% from December 31, 2005 largely due to continued competitive pricing from captive financing companies.

Average commercial loans and leases increased $3.8 billion, or 10%, compared to the December 31, 2005. The Bancorp experienced double-digit growth in more than half of its affiliates, including 15% in the Florida markets, 18% in Tennessee and Chicago and 26% in Cleveland.

The growth in average consumer loans and leases was a result of strong growth in each category mitigated by a decline in consumer auto leases. Average consumer loans and leases increased $2.0 billion, or six percent, compared to 2005, highlighted by 33% growth in both the Florida and Tennessee markets.

TABLE 19: COMPONENTS OF AVERAGE TOTAL LOANS AND LEASES

As of December 31 ($ in millions)	2006	2005	2004	2003	2002
Commercial:					
Commercial loans	**$ 20,400**	18,241	14,908	13,672	11,665

Commercial mortgage	**9,797**	8,923	7,391	6,299	5,834
Commercial construction	**6,015**	5,525	3,807	3,097	3,023
Commercial leases	**3,730**	3,495	3,296	3,037	2,640
Total commercial loans and leases (including held for sale)	**39,942**	36,184	29,402	26,105	23,162
Consumer:					
Residential mortgage	**8,855**	8,396	6,454	6,565	6,100
Residential construction	**719**	586	347	315	277
Credit card	**942**	797	787	591	478
Home equity	**12,268**	11,463	9,797	9,084	8,444
Other consumer loans	**9,439**	8,489	7,958	7,259	5,017
Consumer leases	**1,328**	1,822	2,297	2,495	2,061
Total consumer loans and leases (including held for sale)	**33,551**	31,553	27,640	26,309	22,377
Total loans and leases (including held for sale)	**$ 73,493**	67,737	57,042	52,414	45,539
Total portfolio loans and leases (excluding held for sale)	**$ 72,447**	66,685	55,951	49,700	43,529

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

Investment Securities

As of December 31, 2006, total investment securities were $11.6 billion compared to $22.4 billion at December 31, 2005. 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.

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 improve the asset/liability profile of the Bancorp and 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 composition of the balance sheet with a lower concentration in fixed-rate assets, lower wholesale borrowings to reduce leverage 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, with a weighted-average yield of approximately 4.30% and (ii) reinvestment of approximately $2.8 billion in available-for-sale securities that are more efficient when used as collateral for pledging purposes. The subsequent sale of available-for-sale securities later in the fourth quarter resulted in pretax losses of $398 million. Additionally, 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 reduce its credit exposure as a result of recent market events.

Net unrealized losses on the available-for-sale securities portfolio were $183 million at December 31, 2006 compared to $609 million at December 31, 2005. As of December 31, 2006, 95% of the unrealized losses in the available-for-sale securities portfolio were comprised of securities issued by 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 were the result of movement in market interest rates.

On an amortized cost basis, at the end of 2006, available-for-sale securities decreased $11.3 billion since December 31, 2005. At December 31, 2006, available-for-sale securities have decreased to 13% of interest-earning assets, compared to 24% at December 31, 2005. The estimated weighted-average life of the debt securities in the available-for-sale portfolio was 4.3 years at December 31, 2006 and 2005. At December 31, 2006, the fixed-rate securities within the available-for-sale securities portfolio had a weighted-average yield of 5.13%.

Information presented in Table 20 is on a weighted-average life basis, anticipating future prepayments. Yield information is presented on an FTE basis and is computed using historical cost balances. Maturity and yield calculations for the total available-for-sale portfolio exclude equity securities that have no stated yield or maturity.

TABLE 20: CHARACTERISTICS OF AVAILABLE-FOR-SALE AND OTHER SECURITIES

As of December 31, 2006 ($ in millions)	Amortized Cost	Fair Value	Weighted-Average Life (in years)	Weighted-Average Yield
U.S. Treasury and Government agencies:				
Average life of one year or less	$1,392	$1,392	.1	4.83%
Average life 1 5 years	4	4	2.6	6.53
Average life 5 10 years	-	-	-	-
Average life greater than 10 years	-	-	-	-
Total	1,396	1,396	.1	4.83
U.S. Government sponsored agencies:				
Average life of one year or less	-	-	-	-
Average life 1 5 years	100	95	4.9	4.20
Average life 5 10 years	-	-	-	-
Average life greater than 10 years	-	-	-	-
Total	100	95	4.9	4.20
Obligations of states and political subdivisions *(a)*:				
Average life of one year or less	57	57	.5	7.81
Average life 1 5 years	403	411	3.2	7.30

Average life 5 10 years	106	109	6.4	7.12(b)
Average life greater than 10 years	37	37	11.7	8.55(b)
Total	603	614	4.0	7.33
Agency mortgage-backed securities:				
Average life of one year or less	7	7	.7	6.73
Average life 1 5 years	2,980	2,928	3.5	5.03
Average life 5 10 years	5,012	4,881	5.9	5.09
Average life greater than 10 years	-	-	-	-
Total	7,999	7,816	5.0	5.07
Other bonds, notes and debentures *(c)*:				
Average life of one year or less	7	8	.6	35.56*(d)*
Average life 1 5 years	155	153	2.7	5.59
Average life 5 10 years	10	10	9.0	5.60
Average life greater than 10 years	-	-	-	-
Total	172	171	3.1	6.75
Other securities *(e)*	966	961		
Total available-for-sale and other securities	$11,236	$11,053	4.3	5.18%

(a) Taxable-equivalent yield adjustments included in the above table are 2.57%, 2.42%, 2.95%, 2.25% and 2.42% for securities with an average life of one year or less, 1-5 years, 5-10 years, greater than 10 years and in total, respectively.

(b) Weighted-average yield excludes $18 million and $35 million of securities with an average life of 5-10 years and greater than 10 years, respectively, related to qualified zone academy bonds whose yields are realized through income tax credits. The weighted-average effective yield of these instruments is 6.77%.

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

(d) Amount includes residual interest in an auto securitization with a cost of $5 million and fair market value of $6 million, which is expected to mature in 2007.

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

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

TABLE 21: COMPONENTS OF INVESTMENT SECURITIES (AMORTIZED COST BASIS)

As of December 31 ($ in millions)	2006	2005	2004	2003	2002
Available-for-sale and other:					
U.S. Treasury and Government agencies	**$ 1,396**	506	503	838	303
U.S. Government sponsored agencies	**100**	2,034	2,036	3,877	2,308
Obligations of states and political subdivisions	**603**	657	823	922	1,033
Agency mortgage-backed securities	**7,999**	16,127	17,571	21,101	19,328
Other bonds, notes and debentures	**172**	2,119	2,862	1,401	1,084
Other securities	**966**	1,090	1,006	937	734
Total available-for-sale and other securities	**$ 11,236**	22,533	24,801	29,076	24,790
Held-to-maturity:					
Obligations of states and political subdivisions	**$ 345**	378	245	126	52
Other bonds, notes and debentures	**11**	11	10	9	-
Total held-to-maturity	**$ 356**	389	255	135	52

TABLE 22: DEPOSITS

As of December 31 ($ in millions)	2006	2005	2004	2003	2002
Demand	**$ 14,331**	14,609	13,486	12,142	10,095
Interest checking	**15,993**	18,282	19,481	19,757	17,878
Savings	**13,181**	11,276	8,310	7,375	10,056
Money market	**6,584**	6,129	4,321	3,201	1,044
Transaction deposits	**50,089**	50,296	45,598	42,475	39,073
Other time	**10,987**	9,313	6,837	6,201	7,638
Core deposits	**61,076**	59,609	52,435	48,676	46,711
Certificates - $100,000 and over	**6,628**	4,343	2,121	1,856	1,723
Foreign office	**1,676**	3,482	3,670	6,563	3,774
Total deposits	**$ 69,380**	67,434	58,226	57,095	52,208

Deposits

Deposit balances represent an important source of funding and revenue growth opportunity. The Bancorp is continuing to focus on transaction account deposit growth in its retail and commercial franchises by expanding its retail franchise, enhancing its product offering and providing competitive rates. The Bancorp s goal is to continue to grow the core deposit component of its funding profile. At December 31, 2006, core deposits represented 61% of the Bancorp s asset funding base, compared to 57% at December 31, 2005.

Core deposits grew two percent compared to December 31, 2005, but the Bancorp continues to realize a mix shift as customers move from lower-yield transaction accounts to higher-yield time deposits. Overall, transaction deposits balances remained stable compared to the prior year.

Foreign office deposits represent U.S. dollar denominated deposits of the Bancorp s foreign branch located in the Cayman Islands. The Bancorp utilizes these deposit as well as certificates $100,000 and over as a method to fund earning asset growth.

On an average basis, core deposits increased five percent while continuing to realize a mix shift within core deposits compared to 2005. The Bancorp realized strong double-digit growth in savings, money market and other time deposits mitigated by decreases in demand and interest checking deposits. The Bancorp experienced double-digit average transaction deposit increases in the Indianapolis, Tampa, Orlando, Lexington and Louisville markets.

TABLE 23: AVERAGE DEPOSITS

As of December 31 ($ in millions)	2006	2005	2004	2003	2002
Demand	**$ 13,741**	13,868	12,327	10,482	8,953
Interest checking	**16,650**	18,884	19,434	18,679	16,239
Savings	**12,189**	10,007	7,941	8,020	9,465
Money market	**6,366**	5,170	3,473	3,189	1,162

Transaction deposits	**48,946**	47,929	43,175	40,370	35,819
Other time	**10,500**	8,491	6,208	6,426	8,855
Core deposits	**59,446**	56,420	49,383	46,796	44,674
Certificates - $100,000 and over	**5,795**	4,001	2,403	3,832	2,237
Foreign office	**3,711**	3,967	4,449	3,862	2,018
Total deposits	**$ 68,952**	64,388	56,235	54,490	48,929

Borrowings

During 2006, the Bancorp reduced its reliance on wholesale borrowings. As a result of not reinvesting cash flows from the securities portfolio throughout the year and the balance sheet actions in the fourth quarter, the Bancorp reduced the amount of total borrowings $8.0 billion, or 32%, compared to the prior year-end. As of December 31, 2006 and 2005 total borrowings as a percentage of interest-bearing liabilities were 22% and

29%, respectively. The Bancorp continues to explore additional alternatives regarding the level and cost of various other sources of funding. Refer to the Liquidity Risk Management section for discussion on the Bancorp s liquidity management and Note 11 of the Notes to Consolidated Financial Statements for a comprehensive listing of the components of long-term debt.

TABLE 24: BORROWINGS

As of December 31 ($ in millions)	2006	2005	2004	2003	2002
Federal funds purchased	**$1,421**	5,323	4,714	6,928	4,748
Short-term bank notes	**-**	-	775	500	-
Other short-term borrowings	**2,796**	4,246	4,537	5,742	4,075
Long-term debt	**12,558**	15,227	13,983	9,063	8,179
Total borrowings	**$16,775**	24,796	24,009	22,233	17,002

RISK MANAGEMENT

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

- Risk Policy - ensures consistency in the approach to risk management as the Bancorp s clearinghouse for credit, market and operational risk policies, procedures and guidelines;
- Operational Risk Management - responsible for the risk self-assessment process, the change control evaluation process, fraud prevention and detection, and root cause analysis and corrective action plans relating to identified operational losses;
- Insurance Risk Management - responsible for all property, casualty and liability insurance policies including the claims administration process for the Bancorp;
- Capital Markets Risk Management - responsible for establishing and monitoring proprietary trading limits, monitoring liquidity and interest rate risk and utilizing value at risk and earnings at risk models;
- Credit Risk Review - responsible for evaluating the sufficiency of underwriting, documentation and approval processes for consumer and commercial credits, counter-party credit risk, the accuracy of risk grades assigned to commercial credit exposures, and appropriate accounting for charge-offs, non-accrual status and specific reserves;
- Compliance Risk Management - responsible for oversight of compliance with all banking regulations;
- Risk Strategies and Reporting - responsible for quantitative analytics and Board of Directors and senior management reporting on credit, market and operational risk metrics; and
- Investment Advisors Risk Management - responsible for trust compliance, fiduciary risk and trading risk in the Investment Advisors line of business.

Designated risk managers have been assigned to the business lines reporting directly to the Enterprise Risk Management division and indirectly to senior executives within the division or affiliate. Affiliate risk management is handled by regional risk managers who are responsible for multiple affiliates and who report jointly to affiliate presidents and the Enterprise Risk Management division.

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

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

TABLE 25: COMMERCIAL LOAN AND LEASE PORTFOLIO EXPOSURE (a)

		2006			2005	
As of December 31 ($ in millions)	Outstanding	Exposure	Nonaccrual	Outstanding	Exposure	Nonaccrual
By industry:						
Real estate	**$10,652**	**13,196**	**50**	9,503	11,689	32
Construction	**5,490**	**8,963**	**69**	4,911	8,094	49
Manufacturing	**5,198**	**11,443**	**22**	4,457	9,975	47
Retail trade	**3,655**	**6,515**	**27**	3,602	5,962	18
Transportation and warehousing	**2,097**	**2,432**	**4**	1,701	1,993	6
Business services	**1,862**	**3,640**	**16**	1,886	3,351	13
Healthcare	**1,860**	**3,208**	**9**	1,664	2,844	10
Wholesale trade	**1,827**	**3,642**	**11**	1,879	3,540	9
Financial services and insurance	**1,509**	**4,855**	**8**	1,111	3,069	1
Individuals	**1,364**	**1,785**	**13**	1,840	2,371	12
Other services	**959**	**1,373**	**14**	945	1,260	9
Accommodation and food	**860**	**1,323**	**10**	997	1,396	9
Public administration	**792**	**930**	**-**	830	1,004	-
Agribusiness	**609**	**782**	**8**	569	752	2
Entertainment and recreation	**602**	**841**	**2**	527	749	3
Other	**578**	**1,269**	**4**	1,041	1,596	3
Communication and information	**567**	**1,073**	**1**	544	1,119	4
Utilities	**370**	**1,187**	**-**	301	1,001	-
Mining	**288**	**637**	**3**	219	419	-
Total	**$41,139**	**69,094**	**271**	38,527	62,184	227
By loan size:						
Less than $200,000	**4%**	**3**	**13**	5	4	14
$200,000 to $1 million	**16**	**12**	**34**	19	15	34
$1 million to $5 million	**32**	**27**	**48**	34	28	33
$5 million to $10 million	**17**	**16**	**5**	18	20	8
$10 million to $25 million	**21**	**24**	**-**	18	19	-
Greater than $25 million	**10**	**18**	**-**	6	14	11
Total	**100%**	**100**	**100**	100	100	100
By state:						
Ohio	**25%**	**28**	**36**	26	29	30
Michigan	**22**	**19**	**19**	22	21	21
Illinois	**10**	**10**	**8**	10	10	8
Florida	**10**	**9**	**9**	10	9	4
Indiana	**9**	**9**	**15**	10	10	25
Kentucky	**6**	**6**	**8**	6	6	6
Tennessee	**3**	**3**	**1**	3	2	3
Pennsylvania	**1**	**2**	**-**	1	1	-
Missouri	**1**	**1**	**-**	1	1	-
West Virginia	**-**	**-**	**-**	-	-	1
Out-of-footprint	**13**	**13**	**4**	11	11	2
Total	**100%**	**100**	**100**	100	100	100

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

CREDIT RISK MANAGEMENT

The objective of the Bancorp s credit risk management strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. The Bancorp s credit risk management strategy is based on three core principles: conservatism, diversification and monitoring. The Bancorp believes that effective credit risk management begins with conservative lending practices. These practices include conservative exposure and counterparty limits and conservative underwriting, documentation and collection standards. The Bancorp s credit risk management strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and monthly management reviews of large credit exposures and credits experiencing deterioration of credit quality. Lending officers with the authority to extend credit are delegated specific authority amounts, the utilization of which is closely monitored. Lending activities are largely decentralized, while the Enterprise Risk Management division manages the policy and authority delegation process centrally. The Credit Risk Review function, within the Enterprise Risk Management division, provides objective assessments of the quality of underwriting and documentation, the accuracy of risk grades and the charge-off and reserve analysis process.

The Bancorp s credit review process and overall assessment of required allowances is based on ongoing quarterly assessments of the probable estimated losses inherent in the loan and lease portfolio. The Bancorp uses these assessments to promptly identify potential problem loans or leases within the portfolio, maintain an adequate reserve and take any necessary charge-offs. In addition to the individual review of larger commercial loans that exhibit probable or observed credit weaknesses, the commercial credit review process includes the use of two risk grading systems. The risk grading system currently utilized for reserve analysis purposes encompasses ten categories. The Bancorp also maintains a dual risk rating system that provides for thirteen probability of default grade categories and an additional six grade categories for estimating actual losses given an event of default. The probability of default and loss given default evaluations are not separated in the ten-grade risk rating system. The Bancorp is in the process of completing significant validation and testing of the dual risk rating system prior to implementation for reserve analysis purposes. The dual risk rating system is expected to be consistent with Basel II expectations and allows for more precision in the analysis of commercial credit risk. Scoring systems and delinquency monitoring are used to assess the credit risk in the Bancorp s homogenous consumer loan portfolios.

TABLE 26: SUMMARY OF NONPERFORMING ASSETS AND DELINQUENT LOANS

As of December 31 ($ in millions)	2006	2005	2004	2003	2002
Commercial loans and leases	**$ 133**	145	110	129	159
Commercial mortgages	**84**	51	51	42	41
Commercial construction	**54**	31	13	19	14
Residential mortgages and construction	**38**	30	24	25	18
Consumer loans and leases	**43**	37	30	27	15
Total nonaccrual loans and leases	**352**	294	228	242	247
Renegotiated loans and leases	**-**	-	1	8	-
Other assets, including other real estate owned	**103**	67	74	69	26
Total nonperforming assets	$ 455	361	303	319	273
Commercial loans and leases	**$ 40**	21	22	15	29
Commercial mortgages and construction	**23**	14	13	12	18
Credit card receivables	**16**	10	13	13	9
Residential mortgages and construction (a)	**68**	53	43	51	60
Consumer loans and leases	**63**	57	51	54	46
Total 90 days past due loans and leases	$ 210	155	142	145	162
Nonperforming assets as a percent of total loans, leases and other assets, including other real estate owned	**.61%**	.52	.51	.61	.59
Allowance for loan and lease losses as a percent of nonperforming assets *(b)*	**170**	206	235	219	251

(a) Information for all periods presented excludes advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. As of December 31, 2006, 2005 and 2004, these advances were $14 million, $13 million and $23 million, respectively. Information prior to December 31, 2004 was not available.

(b) At December 31, 2004, the reserve for unfunded commitments was reclassified from the allowance for loan and lease losses to other liabilities. The 2003 year-end reserve for unfunded commitments has been reclassified to conform to the current year presentation.

Portfolio Diversity

The Bancorp s credit risk management strategy includes minimizing concentrations of risk through diversification. Table 25 provides breakouts of the commercial loan and lease portfolio, including held for sale, by major industry classification, by loan size and by state, illustrating the diversity and granularity of the Bancorp s portfolio.

The commercial portfolio is characterized by 87% of outstanding balances and exposures concentrated within the Bancorp s primary market areas of Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Missouri and Pennsylvania. Exclusive of a national large-ticket leasing business, the commercial portfolio is characterized by 94% of outstanding balances and 91% of exposures concentrated within these ten states. The mortgage and construction segments of the commercial portfolio are characterized by 97% of outstanding balances and 96% of exposures concentrated within these ten states.

Analysis of Nonperforming Assets

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

Total nonperforming assets were $455 million at December 31, 2006, an increase of $94 million compared to $361 million at December 31, 2005. Nonperforming assets remain a small percentage of total loans, leases and other assets, including other real estate owned at .61% as of

December 31, 2006, compared to .52% as of December 31, 2005.

Commercial nonaccrual credits as a percent of commercial loans increased from .59% in 2005 to .66% in 2006 primarily due to increases in the Indianapolis and Cleveland markets offset by a decrease in the Cincinnati market. Consumer nonaccrual loans as a percent of loans increased slightly from .20% in 2005 to .24% in 2006. Overall, nonaccrual loans continue to represent a small portion of the portfolio at just .47% as of December 31, 2006, compared to .41% as of December 31, 2005.

Total loans and leases 90 days past due have increased from $155 million as of December 31, 2005 to $210 million as of December 31, 2006. The $55 million increase from the prior year was evenly distributed between commercial and consumer loans and leases.

At December 31, 2006, there were $24 million of loans and leases currently performing in accordance with contractual terms, but for which there were serious doubts as to the ability of the borrower to comply with such terms. For the years 2006 and 2005, interest income of $10 million and $8 million, respectively, was recorded on nonaccrual and renegotiated loans and leases. For the years ended 2006 and 2005, additional interest income of $85 million and $53 million, respectively, would have been recorded if the nonaccrual and renegotiated loans and leases had been current in accordance with the original terms.

Analysis of Net Loan Charge-offs

Net charge-offs as a percent of average loans and leases were 44 bp for 2006, compared to 45 bp for 2005. The ratio of commercial loan net charge-offs to average commercial loans outstanding increased to 53 bp in 2006 compared to 41 bp in 2005 due to increases in net charge-offs in the Indianapolis and Southern Indiana markets, partially offset by a decrease in the Cincinnati market. The net charge-off ratio for commercial mortgage loans increased 15 bp due to increased net charge-offs in the Indianapolis, Chicago and Cleveland markets. The net charge-off ratio for commercial lease financing decreased 109 bp in 2006. The comparison to prior year is impacted by approximately $27 million in charge-offs related to bankrupt commercial airline carriers during 2005. Consumer lease financing net losses charged off decreased to $5 million as a result of decreased net charge-offs in nearly all affiliate markets and lower averages balances. Overall, the level of net charge-offs remains a small percentage of the total loan and lease portfolio. The Bancorp expects net charge-offs to be in the low to mid 50 bp range in 2007. Table 27 provides a summary of credit loss experience and net charge-offs as a

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

TABLE 27: SUMMARY OF CREDIT LOSS EXPERIENCE

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Losses charged off:					
Commercial loans	**$ (131)**	(99)	(95)	(152)	(81)
Commercial mortgage loans	**(27)**	(13)	(14)	(9)	(18)
Commercial lease financing	**(4)**	(38)	(8)	(24)	(11)
Construction loans	**(8)**	(5)	(7)	(3)	(6)
Residential mortgage loans	**(22)**	(18)	(15)	(24)	(10)
Consumer loans	**(203)**	(181)	(156)	(136)	(115)
Consumer lease financing	**(13)**	(19)	(26)	(32)	(32)
Total losses	**(408)**	(373)	(321)	(380)	(273)
Recoveries of losses previously charged off:					
Commercial loans	**24**	24	14	16	20
Commercial mortgage loans	**3**	4	5	2	5
Commercial lease financing	**5**	1	1	2	2
Construction loans	**-**	1	-	1	3
Residential mortgage loans	**-**	-	-	-	-
Consumer loans	**52**	39	41	40	46
Consumer lease financing	**8**	5	8	7	10
Total recoveries	**92**	74	69	68	86
Net losses charged off:					
Commercial loans	**(107)**	(75)	(81)	(136)	(61)
Commercial mortgage loans	**(24)**	(9)	(9)	(7)	(13)
Commercial lease financing	**1**	(37)	(7)	(22)	(9)
Construction loans	**(8)**	(4)	(7)	(2)	(3)
Residential mortgage loans	**(22)**	(18)	(15)	(24)	(10)
Consumer loans	**(151)**	(142)	(115)	(96)	(69)
Consumer lease financing	**(5)**	(14)	(18)	(25)	(22)
Total net losses charged off	**$ (316)**	(299)	(252)	(312)	(187)
Net charge-offs as a percent of average loans and leases (excluding held for sale):					
Commercial loans	**.53%**	.41	.54	1.00	.52
Commercial mortgage loans	**.25**	.10	.12	.10	.23
Commercial lease financing	**(.03)**	1.06	.21	.72	.35
Construction loans	**.11**	.07	.15	.09	.12
Residential mortgage loans	**.28**	.25	.27	.57	.23
Consumer loans	**.67**	.68	.63	.58	.49
Consumer lease financing	**.37**	.78	.81	.98	1.04
Total net losses charged off	**.44**	.45	.45	.63	.43

percentage of average loans and leases outstanding by loan category.

Allowance for Credit Losses

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

national and local economic conditions that might impact the portfolio.

In 2006, the Bancorp has not substantively changed any material aspect to its overall approach in the determination of the allowance for loan and lease losses and there have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance. In addition to the allowance for loan and lease losses, the Bancorp maintains a reserve for unfunded commitments. The methodology used to determine the adequacy of this reserve is similar to the Bancorp s methodology for determining the allowance for loan and lease losses. The provision for unfunded commitments is included in other noninterest expense on the

Consolidated Statements of Income. Table 28 shows the changes in the allowance for credit losses during 2006.

Certain inherent but undetected losses are probable within the loan and lease portfolio. An unallocated component to the allowance for loan and lease losses is maintained to recognize this imprecision in estimating and measuring loss. The Bancorp s current methodology for determining this measure is based on historical loss rates, current credit grades, specific allocation on

TABLE 28: CHANGES IN ALLOWANCE FOR CREDIT LOSSES

For the years ended December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Balance, beginning of year	**$814**	785	770	683	624
Net losses charged off	**(316)**	(299)	(252)	(312)	(187)
Provision for loan and lease losses	**343**	330	268	399	246
Net change in reserve for unfunded commitments	**6**	(2)	(1)	-	-
Balance, end of year	**$847**	814	785	770	683
Components of allowance for credit losses *(a)*:					
Allowance for loan and lease losses	**$771**	744	713	697	
Reserve for unfunded commitments	**76**	70	72	73	
Total allowance for credit losses	**$847**	814	785	770	

(a) At December 31, 2004, the reserve for unfunded commitments was reclassified from the allowance for loan and lease losses to other liabilities. The 2003 year-end reserve for unfunded commitments has been reclassified to conform to the current period presentation.

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

TABLE 29: ATTRIBUTION OF ALLOWANCE FOR LOAN AND LEASE LOSSES TO PORTFOLIO LOANS AND LEASES

As of December 31 ($ in millions)	2006	2005	2004	2003	2002(a)
Allowance attributed to:					
Commercial loans	**$252**	201	210	234	159
Commercial mortgage loans	**95**	78	73	77	117
Construction loans	**52**	47	43	34	41
Residential mortgage loans	**48**	37	44	29	43
Consumer loans	**247**	183	160	146	141
Lease financing	**29**	56	47	64	132
Unallocated	**48**	142	136	113	50
Total allowance for loan and lease losses	**$771**	744	713	697	683
Portfolio loans and leases:					
Commercial loans	**$20,725**	19,174	16,058	14,209	12,743
Commercial mortgage loans	**10,405**	9,188	7,636	6,894	5,885
Construction loans	**6,847**	7,037	4,726	3,636	3,327
Residential mortgage loans	**8,151**	7,152	6,988	4,425	3,495
Consumer loans	**23,311**	22,084	18,923	17,432	15,116
Lease financing	**4,914**	5,290	5,477	5,712	5,362
Total portfolio loans and leases	**$74,353**	69,925	59,808	52,308	45,928
Attributed allowance as a percent of respective portfolio loans:					
Commercial loans	**1.21%**	1.05	1.31	1.65	1.24
Commercial mortgage loans	**.91**	.85	.96	1.12	1.98
Construction loans	**.77**	.67	.90	.94	1.24
Residential mortgage loans	**.59**	.51	.63	.66	1.24
Consumer loans	**1.06**	.83	.85	.84	.93
Lease financing	**.59**	1.06	.86	1.12	2.46
Unallocated (as a percent of total portfolio loans and leases)	**.06**	.20	.23	.22	.11
Total portfolio loans and leases	**1.04%**	1.06	1.19	1.33	1.49

(a) *The allowance for loan and lease losses in 2002 includes funded and unfunded commitments. At December 31, 2004, the reserve for unfunded commitments was reclassified from the allowance for loan and lease losses to other liabilities. The 2003 year-end reserve for unfunded commitments has been reclassified to conform to the current period presentation.*

impaired commercial credits and other qualitative adjustments. Approximately 85% of the required reserves come from the baseline historical loss rates, specific reserve estimates and current credit grades; while 15% comes from qualitative adjustments. As a result, the required reserves tend to slightly lag the deterioration in the portfolio due to the heavy reliance on realized historical losses and the credit grade rating process. Consequently, a larger unallocated reserve is required towards the end of the stronger part of the credit cycle. As the credit cycle deteriorates and the actual loss rates and downgrades increase, the Bancorp s methodology will result in a lower unallocated reserve as the incurred losses get reflected into the main components of the methodology that drive the majority of the required reserve calculations. Unallocated reserves as a percent of total portfolio loans and leases for the year ended December 31, 2006 were .06% compared to .20% for the year ended December 31, 2005.

The allowance for loan and lease losses at December 31, 2006 decreased to 1.04% of the total portfolio loans and leases compared to 1.06% at December 31, 2005. Overall, the Bancorp s long history of low exposure limits, minimal exposure to national or sub-prime lending businesses, centralized risk management and its diversified portfolio reduces the likelihood of significant unexpected credit losses. Table 29 provides the amount of the allowance for loan and lease losses by category.

Residential Mortgage Portfolio

Certain mortgage products have contractual features that may increase credit exposure to the Bancorp in the event of a decline in housing prices. These types of mortgage products offered by the Bancorp include high loan-to-value (LTV) ratios, multiple loans on the same collateral that when combined result in a high LTV (80/20) and interest-only loans. Table 30 shows the Bancorp s originations of these products in 2006 and 2005. The Bancorp does not currently originate mortgage loans that permit principal payment deferral or payments that are less than the accruing interest. Table 31 provides the amount of these loans as a percent of the residential mortgage loans in the Bancorp s portfolio and the delinquency rates of these loan products as of December 31, 2006 and 2005, respectively.

The Bancorp also sells certain of these mortgage products in the secondary market with recourse. The outstanding balances and delinquency rates for these loans sold with recourse as of December 31, 2006 and 2005 were $1.2 billion and 1.74% and $1.2 billion and 1.24%, respectively.

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

TABLE 30: RESIDENTIAL MORTGAGE ORIGINATIONS

For the years ended December 31 ($ in millions)	**2006**	**Percent of total**	2005	Percent of total
Greater than 80% LTV with no mortgage insurance	$679	**7%**	$ 1,245	13 %
Interest-only	1,283	**14**	1,240	13
Greater than 80% LTV and interest-only	180	**2**	408	4
80/20 loans	431	**5**	445	5

TABLE 31: RESIDENTIAL MORTGAGE OUTSTANDINGS

	2006			**2005**		
As of December 31 ($ in millions)	**Balance**	**Percent of total**	**Delinquency Ratio**	**Balance**	**Percent of total**	**Delinquency Ratio**
Greater than 80% LTV with no mortgage insurance	**$ 1,893**	**23%**	**3.79%**	$ 1,773	25%	3.11%
Interest-only	**1,227**	**15**	**.14**	899	13	.41
Greater than 80% LTV and interest-only	**560**	**7**	**1.15**	361	5	.07
80/20 loans	**28**	**-**	**.72**	28	-	-

MARKET RISK MANAGEMENT

Market risk arises from the potential for fluctuations in interest rates, foreign exchange rates and equity prices that may result in the potential reduction of net income. Interest rate risk, a component of market risk, is the exposure to adverse changes in net interest income or financial position due to changes in interest rates. Management considers interest rate risk a prominent market risk in terms of its potential impact on earnings. Interest rate risk can occur for any one or more of the following reasons:

- Assets and liabilities may mature or reprice at different times;
- Short-term and long-term market interest rates may change by different amounts; or
- The remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change.

In addition to the direct impact of interest rate changes on net interest income, interest rates can indirectly impact earnings through their effect on loan demand, credit losses, mortgage origination fees, the value of servicing rights and other sources of the Bancorp s earnings. Consistency of the Bancorp s net interest income is largely dependent upon the effective management of interest rate risk.

As a result of the ongoing analysis of the Bancorp s interest rate risk profile, management recommended and the Bancorp s Board of Directors approved a decision on November 20, 2006 to reduce the size of the available-for-sale securities portfolio. This action was undertaken in order to, among other reasons, improve the composition of the Bancorp s balance sheet with a lower concentration of fixed-rate assets and better position the Bancorp for an uncertain economic and interest rate environment. Management continues to review the Bancorp s balance sheet composition

and to model the interest rate risk, and possible actions to reduce this risk, given numerous future interest rate scenarios.

Net Interest Income Simulation Model

The Bancorp employs a variety of measurement techniques to identify and manage its interest rate risk, including the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on actual cash flows and repricing characteristics for all of the Bancorp s financial instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The model also includes senior management projections of the future volume and pricing of each of the product lines offered by the Bancorp as well as other pertinent assumptions on the balance sheet. Actual results will differ from these simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

The Bancorp s Executive Asset Liability Committee (ALCO), which includes senior management representatives and is accountable to the Risk and Compliance Committee of the

Board of Directors, monitors and manages interest rate risk within Board approved policy limits. In addition to the risk management activities of ALCO, the Bancorp has a Market Risk Management function as part of the Enterprise Risk Management division that provides independent oversight of market risk activities. The Bancorp s current interest rate risk policy limits are determined by measuring the anticipated change in net interest income over 12-month and 24-month horizons assuming a 200 bp parallel ramped increase or decrease in market interest rates. In accordance with the current policy, the rate movements are assumed to occur over one year and are sustained thereafter. The following table shows the Bancorp s estimated earnings sensitivity profile and the ALCO policy limits on the asset and liability positions as of December 31, 2006:

TABLE 32: ESTIMATED EARNINGS SENSITIVITY PROFILE

Change in Interest Rates (bp)	Change in Net Interest Income (FTE) 12 Months	Change in Net Interest Income (FTE) 13 to 24 Months	ALCO Policy Limits 12 Months	ALCO Policy Limits 13 to 24 Months
+200	(.29)%	.45	(5.00)	(7.00)
+100	.01	.20	-	-
-100	.07	(.43)	-	-
-200	.41	(2.27)	(5.00)	(7.00)

Economic Value of Equity

The Bancorp also employs economic value of equity (EVE) as a measurement tool in managing interest rate sensitivity. Whereas net interest income simulation highlights exposures over a relatively short time horizon, the EVE analysis incorporates all cash flows over the estimated remaining life of all balance sheet and derivative positions. The EVE of the balance sheet, at a point in time, is defined as the discounted present value of asset and derivative cash flows less the discounted value of liability cash flows. The sensitivity of EVE to changes in the level of interest rates is a measure of longer-term interest rate risk. In contrast to the net interest income simulation, which assumes interest rates will change over a period of time, EVE uses instantaneous changes in rates. EVE values only the current balance sheet and does not incorporate the growth assumptions that are used in the net interest income simulation model. As with the net interest income simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the transaction deposit portfolios. The following table shows the Bancorp s EVE sensitivity profile as of December 31, 2006:

TABLE 33: ESTIMATED EVE SENSITIVITY PROFILE

Change in Interest Rates (bp)	Change in EVE 2006	Change in EVE ALCO Policy Limits
+200	**(3.98)%**	(20.0)
-200	**2.52**	(20.0)

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

At December 31, 2006, the Bancorp has reduced its sensitivity, relative to December 31, 2005, to the impact of an instantaneous rate movement as a result of the balance sheet actions taken during the fourth quarter of 2006. While an instantaneous shift in interest rates is used in this analysis to provide an estimate of exposure, the Bancorp believes that a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current fiscal year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships and changing product spreads that could mitigate the adverse impact of changes in interest rates. The net interest income simulation and EVE analyses do not necessarily include certain actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

Use of Derivatives to Manage Interest Rate Risk

An integral component of the Bancorp s interest rate risk management strategy is its use of derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by changes in market interest rates. Examples of 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, principal-only swaps, options and swaptions.

As part of its overall risk management strategy relative to its mortgage banking activity, the Bancorp enters into forward contracts accounted for as free-standing derivatives to economically hedge interest rate lock commitments that are also considered free-standing derivatives.

The Bancorp also establishes derivative contracts with reputable third parties to economically hedge significant exposures assumed in commercial customer accommodation derivative contracts. Generally, these contracts have similar terms in order to protect the Bancorp from market volatility. Credit risks arise from the possible inability of counterparties to meet the terms of their contracts, which the Bancorp minimizes through approvals, limits and monitoring procedures. The notional amount and fair values of these derivatives as of December 31, 2006 are included in Note 8 of the Notes to Consolidated Financial Statements.

Portfolio Loans and Leases and Interest Rate Risk

Although the Bancorp s portfolio loans and leases contain both fixed and floating/adjustable rate products, the rates of interest

earned by the Bancorp on the outstanding balances are generally established for a period of time. The interest rate sensitivity of loans and leases is directly related to the length of time the rate earned is established. Table 34 shows a summary of the expected principal cash flows of the Bancorp s portfolio loans and leases as of December 31, 2006. Additionally, Table 35 shows a summary of expected principal cash flows occurring after one year as of December 31, 2006.

Mortgage Servicing Rights and Interest Rate Risk

The net carrying amount of the MSR portfolio was $519 million as of December 31, 2006 compared to $433 million as of December 31, 2005. The Bancorp maintains a non-qualifying hedging strategy relative to its mortgage banking activity, including consultation with an independent third-party specialist, in order to manage a portion of the risk associated with changes in value of its MSR portfolio as a result of changing interest rates. The value of servicing rights can fluctuate sharply depending on changes in interest rates and other factors. Generally, as interest rates decline and loans are prepaid to take advantage of refinancing, the total value of existing servicing rights declines because no further servicing fees are collected on repaid loans.

The increase in interest rates and the resulting impact of changing prepayment speeds led to recoveries of $19 million and $33 million of temporary impairment in 2006 and 2005, respectively. Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing market rates. See Note 7 of the Notes to Consolidated Financial Statements for further discussion on servicing rights.

Foreign Currency Risk

The Bancorp enters into foreign exchange derivative contracts to economically hedge certain foreign denominated loans. The derivatives are classified as free-standing instruments with the revaluation gain or loss being recorded within other noninterest income on the Consolidated Statements of Income. The balance of the Bancorp s foreign denominated loans at December 31, 2006 was approximately $196 million compared to approximately $130 million at December 31, 2005. The Bancorp also enters into foreign exchange contracts for the benefit of commercial customers involved in international trade to hedge their exposure to foreign currency fluctuations. The Bancorp has several internal controls in place to ensure excessive risk is not being taken in providing this service to customers. These include an independent determination of currency volatility and credit equivalent exposure on these contracts, counterparty credit approvals and country limits.

TABLE 34: PORTFOLIO LOAN AND LEASE PRINCIPAL CASH FLOWS

As of December 31, 2006 ($ in millions)	Less than 1 year	1-5 years	Greater than 5 years	Total
Commercial loans	$11,953	7,539	1,233	20,725
Commercial mortgage loans	3,841	5,048	1,516	10,405
Commercial construction loans	4,206	1,680	282	6,168
Commercial lease financing	1,054	1,878	909	3,841
Residential mortgage and construction loans	2,576	4,045	2,209	8,830
Consumer loans	6,405	12,717	4,189	23,311
Consumer lease financing	415	651	7	1,073
Total	$30,450	33,558	10,345	74,353

TABLE 35: PORTFOLIO LOAN AND LEASE PRINCIPAL CASH FLOWS OCCURRING AFTER ONE YEAR

	Interest Rate	
As of December 31, 2006 ($ in millions)	**Fixed**	**Floating or Adjustable**
Commercial loans	$2,508	6,264
Commercial mortgage loans	2,237	4,327
Commercial construction loans	351	1,611
Commercial lease financing	2,787	-
Residential mortgage and construction loans	3,293	2,961
Consumer loans	7,894	9,012
Consumer lease financing	658	-
Total	$19,728	24,175

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

TABLE 36: MATURITY DISTRIBUTION OF CERTIFICATES - $100,000 AND OVER

As of December 31, 2006 ($ in millions)	
Three months or less	$ 2,673
Over three months through six months	1,544
Over six months through one year	1,032
Over one year	1,379
Total	$ 6,628

TABLE 37: AGENCY RATINGS

As of December 31, 2006	Moody s	Standard and Poor s	Fitch
Fifth Third Bancorp:			
Commercial paper	Prime-1	A-1	F1+
Senior debt	Aa3	A+	AA-
Subordinated debt	A1	A	A+
Fifth Third Bank and Fifth Third Bank (Michigan):			
Short-term deposit	Prime-1	A-1+	F1+
Long-term deposit	Aa2	AA-	AA
Senior debt	Aa2	AA-	AA-
Subordinated debt	Aa3	A+	A+

LIQUIDITY RISK MANAGEMENT

The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand or unexpected deposit withdrawals. This goal is accomplished by maintaining liquid assets in the form of investment securities, maintaining sufficient unused borrowing capacity in the national money markets and delivering consistent growth in core deposits. The estimated weighted-average life of the available-for-sale portfolio was 4.3 years at December 31, 2006, based on current prepayment expectations. Of the $11.1 billion (fair value basis) of securities in the available-for-sale portfolio at December 31, 2006, $3.0 billion in principal and interest is expected to be received in the next 12 months, and an additional $1.6 billion is expected to be received in the next 13 to 24 months. In addition to the sale of securities in the available-for-sale portfolio, asset-driven liquidity is provided by the Bancorp s ability to sell or securitize loan and lease assets. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, the Bancorp has developed securitization and sale procedures for several types of interest-sensitive assets. A majority of the long-term, fixed-rate single-family residential mortgage loans underwritten according to FHLMC or Federal National Mortgage Association (FNMA) guidelines are sold for cash upon origination. Additional assets such as jumbo fixed-rate residential mortgages, certain floating-rate short-term commercial loans, certain floating-rate home equity loans, certain auto loans and other consumer loans are also capable of being securitized, sold or transferred off-balance sheet. For the years ended December 31, 2006 and 2005, a total of $9.2 billion and $9.5 billion, respectively, were sold, securitized or transferred off-balance sheet.

Additionally, the Bancorp has a shelf registration in place with the Securities and Exchange Commission (SEC)

permitting ready access to the public debt markets and qualifies as a well-known seasoned issuer under SEC rules. As of December 31, 2006, $750 million of debt or other securities were available for issuance under this shelf registration. The Bancorp also has $15.8 billion of funding available for issuance through private offerings of debt securities pursuant to its bank note program. These sources, in addition to the Bancorp s 9.32% average equity capital base, provide a stable funding base.

Core deposits have historically provided the Bancorp with a sizeable source of relatively stable and low-cost funds. The Bancorp s average core deposits and shareholders equity funded 67% of its average total assets during 2006 compared to 64% during 2005. In addition to core deposit funding, the Bancorp also accesses a variety of other short-term and long-term funding sources, which include the use of various regional Federal Home Loan Banks as a funding source. Certificates carrying a balance of $100,000 or more and deposits in the Bancorp s foreign branch located in the Cayman Islands are wholesale funding tools utilized

to fund asset growth. The maturity distribution for domestic certificates of deposit of $100,000 and over as of December 31, 2006 is shown in Table 36. Management does not rely on any one source of liquidity and manages availability in response to changing balance sheet needs.

As of December 31, 2006, the Moody s senior debt rating for the Bancorp was Aa3, a rating surpassed by only four other U.S. bank holding companies. Table 37 provides Moody s, Standard and Poor s and Fitch s deposit and debt ratings for the Bancorp, Fifth Third Bank and Fifth Third Bank (Michigan). These debt ratings, along with capital ratios above regulatory guidelines, provide the Bancorp with additional access to liquidity.

CAPITAL MANAGEMENT

The Bancorp maintains a relatively high level of capital as a margin of safety for its depositors and shareholders. At December 31, 2006, shareholders equity was $10.0 billion compared to $9.4 billion at December 31, 2005, an increase of six percent. The Bancorp is reviewing its capital structure and expects the tangible equity ratio to be approximately 7.0% at the end of 2007. The Bancorp issued $750 million of Tier II-qualifying subordinated debt during 2006. The issuance added approximately 73 bp to the total risk-based capital ratio. The Bancorp expects this ratio to remain at approximately 11.0% in 2007. See Note 26 of the Notes to Consolidated Financial Statements for additional information regarding regulatory capital ratios.

Dividend Policy

The Bancorp s common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain adequate capital levels and alternative investment opportunities. In 2006, the Bancorp s annual dividend increased to $1.58 from $1.46 in 2005.

Stock Repurchase Program

On January 10, 2005, the Bancorp repurchased 35.5 million shares of its common stock, approximately six percent of total outstanding shares, for $1.6 billion in an overnight share repurchase transaction, where the counterparty in the transaction purchased shares in the open market over a period of time. This program was completed by the counterparty during the third quarter of 2005 and the Bancorp received a price adjustment of $97 million in cash. The price adjustment represented the difference between the original per share purchase price of $45.95 and the volume weighted-average price of $43.55 for actual shares acquired by the counterparty during the purchase period, plus interest.

This 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

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

TABLE 38: CAPITAL RATIOS

As of December 31 ($ in millions)	**2006**	2005	2004	2003	2002
Average equity as a percent of average assets	**9.32%**	9.06	9.34	10.01	11.08
Tangible equity as a percent of tangible assets	**7.79**	6.87	8.35	8.56	9.54
Tier I capital	**$8,625**	8,209	8,522	8,168	7,656
Total risk-based capital	**11,385**	10,240	10,176	9,992	8,844
Risk-weighted assets	**102,823**	98,293	82,633	74,477	65,444
Regulatory capital ratios:					
Tier I capital	**8.39%**	8.35	10.31	10.97	11.70
Total risk-based capital	**11.07**	10.42	12.31	13.42	13.51
Tier I leverage	**8.44**	8.08	8.89	9.11	9.73

TABLE 39: SHARE REPURCHASES

For the years ended December 31	**2006**	2005	2004
Shares authorized for repurchase at January 1	**17,846,953**	35,685,112	14,137,512
Additional authorizations	**-**	20,000,000	40,000,000
Shares repurchases (a)	**(2,039,908)**	(37,838,159)	(18,452,400)
Shares authorized for repurchase at December 31	**15,807,045**	17,846,953	35,685,112
Average price paid per share	**$39.72**	$43.19	53.48

(a) Excludes 357,612, 134,435 and 40,850 shares repurchased during 2006, 2005 and 2004, respectively, in connection with various employee compensation plans. These repurchases are not included against the maximum number of shares that may yet be repurchased under the Board of Directors authorization.

as a contra equity transaction. The forward contract indexed to the Bancorp s stock qualified for equity classification. 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. At December 31, 2006, the Bancorp had 15.8 million shares remaining under this authorization.

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. The Bancorp s repurchase of equity securities is shown in Table 39.

Off-Balance Sheet Arrangements

The Bancorp consolidates all of 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 exert, significant influence or control, are accounted for by equity method accounting and not consolidated. Those entities in which there is less than 20% ownership are generally carried at the lower of cost or fair value.

The Bancorp has no material contracts for which a lack of marketplace quotations requires the estimation of fair value. The Bancorp s derivative product policy and investment policies provide a framework within which the Bancorp and its affiliates may use certain authorized financial derivatives as a market risk management tool in meeting the Bancorp s ALCO capital planning directives and to hedge changes in fair value of its largely fixed-rate mortgage servicing rights portfolio. The Bancorp also provides qualifying commercial customers access to the derivative market, including foreign exchange, interest rate and commodity 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 matching terms that are generally settled daily. These policies are reviewed and approved annually by the Risk and Compliance Committee of

the Board of Directors.

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. 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 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.

The Bancorp had the following cash flows with these unconsolidated QSPEs during the years ended December 31, 2006 and 2005:

TABLE 40: CASH FLOWS WITH UNCONSOLIDATED QSPEs

For the years ended December 31 ($ 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

The Bancorp utilizes securitization trusts formed by independent third parties to facilitate the securitization process of residential mortgage loans, certain floating-rate home equity lines of credit, certain auto loans and other consumer loans. The cash flows to and from the securitization trusts are principally limited to the initial proceeds from the securitization trust at the time of sale with subsequent cash flows relating to retained interests. The Bancorp s securitization policy permits the retention of subordinated tranches, servicing rights, interest-only strips, residual interests, credit recourse and, in some cases, a cash reserve account. At December 31, 2006, the Bancorp had retained servicing assets totaling $524 million, subordinated tranche security interests totaling $15 million and residual interests totaling $21 million. At December 31, 2005, the Bancorp had retained servicing assets totaling $441 million, subordinated tranche security interests totaling $30 million and residual interests totaling $35 million.

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. 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.

Contractual Obligations and Commitments

The Bancorp has certain obligations and commitments to make future payments under contracts. At December 31, 2006, the aggregate contractual obligations and commitments were:

TABLE 41: CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

	Less than			Greater than	
As of December 31, 2006 ($ in millions)	1 year	1-3 years	3-5 years	5 years	Total
Contractually obligated payments due by period:					
Total deposits *(a)*	$ 66,423	1,225	26	1,706	69,380
Long-term debt *(b)*	2,029	3,890	794	5,845	12,558
Short-term borrowings *(c)*	4,217	-	-	-	4,217
Noncancelable leases *(d)*	72	134	112	377	695
Capital expenditures *(e)*	126	-	-	-	126
Partnership investment commitments (f)	260	-	-	-	260
Purchase obligations *(g)*	15	9	-	-	24
Total contractually obligated payments due by period	$ 73,142	5,258	932	7,928	87,260
Other commitments by expiration period:					
Letters of credit *(h)*	$ 2,877	3,024	1,773	489	8,163
Commitments to extend credit *(h)*	23,962	18,123	-	-	42,085
Total other commitments by expiration period	$ 26,839	21,147	1,773	489	50,248

(a) Includes demand, interest checking, savings, money market, other time, certificates $100,000 and over and foreign office deposits. For additional information, see the Deposits discussion in the Balance Sheet Analysis section of Management s Discussion and Analysis.

(b) In the banking industry, interest-bearing obligations are principally used to fund interest-earning assets. As such, interest charges on contractual obligations were excluded from reported amounts, as the potential cash outflows would have corresponding cash inflows from interest-earning assets. See Note 11 of the Notes to Consolidated Financial Statements for additional information on these debt instruments.

(c) Includes federal funds purchased, bank notes, securities sold under repurchase agreements and borrowings with an original maturity of less than one year. For additional information, see Note 10 of the Notes to Consolidated Financial Statements.

(d) See Note 4 of the Notes to Consolidated Financial Statements for additional information on these noncancelable leases.

(e) Includes commitments to various general contractors for work related to banking center construction.

(f) Includes low-income housing, historic tax and venture capital partnership investments.

(g) Represents agreements to purchase goods or services.

(h) See Note 12 of the Notes to Consolidated Financial Statements for additional information on these commitments.

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.
Chairman and Chief Executive Officer
February 15, 2007

Christopher G. Marshall
Executive Vice President and Chief Financial Officer
February 15, 2007

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 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.

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

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	