CANADIAN NATURAL RESOURCES LTD
Form SC 13G/A
February 03, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No: 1)

CANADIAN NATURAL RESOURCES LTD

(Name of Issuer)

Common Stock

(Title of Class of Securities)

136385101

(CUSIP Number)

December 31, 2010

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 136385101

(1)Names of reporting persons. BlackRock, Inc.

(2) Check the appropriate box if a member of a group
(a) [ ]

(b) [X]

(3) SEC use only

(4) Citizenship or place of organization

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power

57882034

(6) Shared voting power

None

(7) Sole dispositive power

57882034

(8) Shared dispositive power

None

(9) Aggregate amount beneficially owned by each reporting person

57882034

(10) Check if the aggregate amount in Row (9) excludes certain shares

(11) Percent of class represented by amount in Row 9

5.32%

(12) Type of reporting person

HC

Item 1.

Item 1(a) Name of issuer:

CANADIAN NATURAL RESOURCES LTD

Item 1(b) Address of issuer's principal executive offices:

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855 Second Street Southwest
Suite 2500 Calgary, AB T2P 4J8 Canada

Item 2.

2(a) Name of person filing:

BlackRock, Inc.

2(b) Address or principal business office or, if none, residence:

BlackRock Inc.
40 East 52nd Street
New York, NY 10022

2(c) Citizenship:

See Item 4 of Cover Page

2(d) Title of class of securities:

Common Stock

2(e) CUSIP No.:
See Cover Page

Item 3.

If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:
[ ] Broker or dealer registered under Section 15 of the Act;
[ ] Bank as defined in Section 3(a)(6) of the Act;
[ ] Insurance company as defined in Section 3(a)(19) of the Act;
[ ] Investment company registered under Section 8 of the Investment Company Act of 1940;
[ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
[ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
[X] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
[ ] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
[ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940;
[ ] A non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J);
[ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

Amount beneficially owned:

57882034

Percent of class

5.32%

Number of shares as to which such person has:

Sole power to vote or to direct the vote

57882034

Shared power to vote or to direct the vote

None

Sole power to dispose or to direct the disposition of

57882034

Shared power to dispose or to direct the disposition of

None

Item 5.

Ownership of 5 Percent or Less of a Class. If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following [ ].

Item 6. Ownership of More than 5 Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than 5 percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of CANADIAN NATURAL RESOURCES LTD.
No one person's interest in the common stock of
CANADIAN NATURAL RESOURCES LTD
is more than five percent of the total outstanding common shares.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

See Exhibit A

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity.

See Item 5.

Item 10. Certifications
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: January 21, 2011
BlackRock, Inc.

Signature: Matthew J. Fitzgerald

Name/Title Attorney-In-Fact

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

Subsidiary

BlackRock Japan Co. Ltd.
BlackRock Advisors (UK) Limited
BlackRock Institutional Trust Company, N.A.
BlackRock Fund Advisors
BlackRock Asset Management Canada Limited
BlackRock Asset Management Australia Limited
BlackRock Advisors, LLC
BlackRock Capital Management, Inc.
BlackRock Financial Management, Inc.
BlackRock Investment Management, LLC
BlackRock Investment Management (Australia) Limited
BlackRock Investment Management (Korea) Ltd
BlackRock (Luxembourg) S.A.
BlackRock (Netherlands) B.V.
BlackRock Fund Managers Limited
BlackRock Asset Management Ireland Limited
BlackRock International Limited
BlackRock Investment Management (UK) Limited

*Entity beneficially owns 5% or greater of the outstanding shares of the security class being reported on this Schedule 13G.

Exhibit B

POWER OF ATTORNEY

The undersigned, BLACKROCK, INC., a corporation duly organized under the laws of the State of Delaware, United States (the "Company"), does hereby make, constitute and appoint each of Robert Connolly, Howard Surloff, Edward Baer, Bartholomew Battista, Daniel Waltcher, Karen Clark, John Stelley, Denis Molleur, Daniel Ronnen, Brian Kindelan, Nicholas Hall, Con Tzatzakis , John Blevins, Rick F. Froio and Matthew Fitzgerald acting severally, as its true and lawful attorneys-in-fact, for the purpose of, from time to time, executing in its name and on its behalf, whether the Company is acting individually or as representative of others, any and all documents, certificates, instruments, statements, other filings and amendments to the foregoing (collectively, "documents") determined by such person to be necessary or appropriate to comply with ownership or control-person reporting requirements imposed by any United States or non-United States governmental or regulatory authority, including without limitation Forms 3, 4, 5, 13D, 13F and 13G and any amendments to any of the foregoing as may be required to be filed with the Securities and Exchange Commission, and delivering, furnishing or filing any such documents with the appropriate governmental, regulatory authority or other person, and giving and granting to each such attorney-in-fact power and authority to act in the premises as fully and to all intents and purposes as the Company might or could do if personally present by one of its authorized signatories, hereby ratifying and confirming all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. Any such determination by an attorney-in-fact named herein shall be conclusively evidenced by such person's execution, delivery, furnishing or filing of the applicable document.

This power of attorney shall expressly revoke the power of attorney dated January 11, 2008 in respect of the subject matter hereof, shall be valid from the date hereof and shall remain in full force and effect until either revoked in writing by the Company, or, in respect of any attorney-in-fact named herein, until such person ceases to be an employee of the Company or one of its affiliates.

IN WITNESS WHEREOF, the undersigned has caused this power of attorney to be executed as of this 14th day of December, 2009.

BLACKROCK, INC.

By:_ /s/ Robert W. Doll, Jr.
Name: Robert W. Doll, Jr.
Title: Vice Chairman

IGN="justify">Commercial nonaccrual credits increased from $271 million as of December 31, 2006 to $672 million as of December 31, 2007. The majority of the increase was driven by the real estate and construction industries in the Southern Florida, Northeastern Ohio and Eastern Michigan affiliates. These affiliates combined to account for 42% of commercial nonaccrual credits as of December 31, 2007. As shown in Table 26, the real estate and construction industries contributed to more than two-thirds of the increase in nonaccrual credits. At year end, a total of $57 million in nonaccrual credits were the result of the Crown acquisition.

Consumer nonaccrual credits increased from $81 million as of December 31, 2006 to $221 million as of December 31, 2007. The

TABLE 30: HOME EQUITY OUTSTANDINGS

	2007			2006		
As of December 31 ($ in millions)	LTV less than 80%	LTV greater than 80%	Delinquency Ratio	LTV less than 80%	LTV greater than 80%	Delinquency Ratio
Ohio	**$1,873**	**$2,039**	**1.50%**	$2,006	$2,124	1.30%
Michigan	**1,393**	**1,295**	**2.06**	1,529	1,354	1.69
Indiana	**628**	**641**	**1.95**	684	686	1.66
Illinois	**637**	**545**	**1.66**	617	582	1.19
Kentucky	**508**	**594**	**1.52**	533	631	1.11
Florida	**536**	**291**	**2.93**	418	229	.96
All other states	**174**	**689**	**3.07**	153	678	1.61

Total	**$5,749**	**$6,094**	**1.90%**	$5,940	$6,284	1.41%

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

TABLE 31: SUMMARY OF NONPERFORMING ASSETS AND DELINQUENT LOANS

As of December 31 ($ in millions)	**2007**	2006	2005	2004	2003
Commercial loans	**$175**	127	140	105	110
Commercial mortgage loans	**243**	84	51	51	42
Commercial construction loans	**249**	54	31	13	19
Commercial leases	**5**	6	5	5	19
Residential mortgages loans*(a)*	**121**	38	30	24	25
Home equity*(b)(d)*	**91**	40			
Automobile loans(d)	**3**	3			
Credit card*(c)*	**5**	-	-	-	-
Other consumer loans and leases*(d)*	**1**	-	37	30	27
Total nonaccrual loans and leases	**893**	352	294	228	242
Commercial renegotiated loans and leases	**-**	-	-	1	8
Repossessed personal property and other real estate owned	**171**	103	67	74	69
Total nonperforming assets	**$1,064**	455	361	303	319
Commercial loans	**$44**	38	20	21	14
Commercial mortgage loans	**73**	17	7	8	8
Commercial construction loans	**67**	6	7	5	4
Commercial leases	**4**	2	1	1	1
Residential mortgages loans(e)	**186**	68	53	43	51
Home equity(d)	**72**	51			
Automobile loans(d)	**13**	11			
Credit card	**31**	16	10	13	13
Other consumer loans and leases*(d)*	**1**	1	57	51	54
Total 90 days past due loans and leases	**$491**	210	155	142	145
Nonperforming assets as a percent of total loans, leases and other assets, including other real estate owned	**1.32%**	.61	.52	.51	.61
Allowance for loan and lease losses as a percent of nonperforming assets	**88**	170	206	235	219

(a) Residential mortgage nonaccrual loans include debt restructurings of $29 million as of December 31, 2007.
(b) Home equity nonaccrual loans include debt restructurings of $46 million as of December 31, 2007.
(c) All nonaccrual credit card balances are the result of debt restructurings.
(d) Prior to 2006, other consumer loans and leases include home equity, automobile and other consumer loans and leases.
(e) 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, 2007, 2006 and 2005, these advances were $25 million, $14 million and $13 million, respectively. Information prior to 2004 was not available.

increase in consumer nonaccrual credits is primarily attributable to the housing markets in the Michigan and Florida affiliates and the restructuring of certain high risk loans. Michigan and Florida nonaccrual credits accounted for 63% of the increase in nonaccrual credits in the consumer loan portfolio and, as of December 31, 2007, represented approximately half of the consumer nonaccrual credits. The Bancorp has devoted significant attention to loss mitigation activities and, during the past year, decreased the timing between delinquency and repossession of automobiles and proactively restructured certain real estate loans. Consumer restructured loans are recorded as nonaccrual credits until there is a sustained period of payment by the borrower, generally a minimum of six months of payments in accordance with the loans modified terms. Consumer restructured loans contributed approximately $80 million to nonaccrual loans as of December 31, 2007.

Included in nonaccrual credits as of December 31, 2007 were $43 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 2007 and 2006, interest income of $22 million and $10 million, respectively, was recorded on nonaccrual and renegotiated loans and leases. For the years ended 2007 and 2006, additional interest income of $144 million and $85 million, respectively, would have been recorded if the nonaccrual and renegotiated loans and leases had been current in accordance with the original terms. Although this value helps demonstrate the costs of carrying nonaccrual credits, the Bancorp does not expect to recover the full amount of interest as nonaccrual loans and leases are generally carried below their principal balance.

Analysis of Net Loan Charge-offs

Net charge-offs as a percent of average loans and leases were 61 bp for 2007, compared to 44 bp for 2006. Table 32 provides a summary of credit loss experience and net charge-offs as a percentage of average loans and leases outstanding by loan category.

The ratio of commercial loan net charge-offs to average commercial loans outstanding increased to 43 bp in 2007 compared to 34 bp in 2006 due to increases in net charge-offs in the commercial mortgage and commercial construction captions as homebuilders and developers were affected by the downturn in the real estate markets. Commercial net charge-offs in the Michigan affiliates grew $30 million over 2006, with the most stress appearing in the Detroit metro area. Commercial net charge-offs in the Florida affiliates grew $13 million over 2006. The Chicago affiliate also displayed a $21 million increase in commercial charge-offs, primarily due to a $15 million fraud related loss during the fourth quarter of 2007.

The ratio of consumer loan net charge-offs to average consumer loans outstanding increased to 84 bp in 2007 compared to 55 bp in 2006. Residential mortgage charge-offs increased 21 bp compared to 2006, reflecting increased foreclosure rates in the Bancorp s key lending markets and the related increase in severity of loss on mortgage loans. During 2007, Florida, Michigan and Ohio were ranked among the top states in total mortgage foreclosures. These foreclosures not only added to the volume of charge-offs, but also hampered the Bancorp s ability to recover the value of the homes collateralizing the mortgages as they contributed to declining home prices. Florida affiliates experienced the most stress, with residential mortgage net charge-offs increasing $11 million over 2006. Home equity charge-offs increased $41 million to 82 bp of average loans, primarily due to increases in the Michigan and Florida affiliates and among those products originated through a broker channel. Brokered home equity loans represented 50% of home equity charge-offs during 2007 despite representing only 23% of home equity lines and loans as of December 31, 2007. Management responded to the performance of the brokered home equity portfolio by reducing originations in 2007 of this product by 64% compared to 2006 and, at the end of 2007, eliminating this channel of origination. The ratio of automobile loan net charge-offs to average automobile

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

TABLE 32: SUMMARY OF CREDIT LOSS EXPERIENCE

For the years ended December 31 ($ in millions)	**2007**	2006	2005	2004	2003
Losses charged off:					
Commercial loans	**$ (121)**	(131)	(99)	(95)	(153)
Commercial mortgage loans	**(46)**	(27)	(13)	(14)	(9)
Commercial construction loans	**(29)**	(7)	(5)	(7)	(4)
Commercial leases	**(1)**	(4)	(38)	(8)	(24)
Residential mortgage loans	**(43)**	(23)	(19)	(15)	(24)
Home equity	**(106)**	(65)	(60)	(52)	(52)
Automobile loans	**(117)**	(87)	(63)	(56)	(41)
Credit card	**(54)**	(36)	(46)	(35)	(31)
Other consumer loans and leases	**(27)**	(28)	(30)	(39)	(42)
Total losses	**(544)**	(408)	(373)	(321)	(380)
Recoveries of losses previously charged off:					
Commercial loans	**12**	24	24	14	16
Commercial mortgage loans	**2**	3	3	5	2
Commercial construction loans	**-**	-	1	-	-
Commercial leases	**1**	5	1	1	2
Residential mortgage loans	**-**	-	-	-	-
Home equity	**9**	9	10	10	15
Automobile loans	**32**	30	18	18	12
Credit card	**8**	5	5	6	5
Other consumer loans and leases	**18**	16	12	15	16
Total recoveries	**82**	92	74	69	68
Net losses charged off:					
Commercial loans	**(109)**	(107)	(75)	(81)	(137)
Commercial mortgage loans	**(44)**	(24)	(10)	(9)	(7)
Commercial construction loans	**(29)**	(7)	(4)	(7)	(4)
Commercial leases	**-**	1	(37)	(7)	(22)
Residential mortgage loans	**(43)**	(23)	(19)	(15)	(24)
Home equity	**(97)**	(56)	(50)	(42)	(37)
Automobile loans	**(85)**	(57)	(45)	(38)	(29)
Credit card	**(46)**	(31)	(41)	(29)	(26)
Other consumer loans and leases	**(9)**	(12)	(18)	(24)	(26)
Total net losses charged off	**$ (462)**	(316)	(299)	(252)	(312)
Net charge-offs as a percent of average loans and leases (excluding held for sale):					
Commercial loans	**.49%**	.53	.41	.54	1.00
Commercial mortgage loans	**.40**	.25	.10	.12	.10
Commercial construction loans	**.51**	.11	.08	.17	.10
Commercial leases	**.01**	(.03)	1.06	.21	.72
Total commercial loans and leases	**.43**	.34	.35	.35	.64
Residential mortgage loans	**.48**	.27	.23	.25	.53
Home equity	**.82**	.46	.44	.44	.43
Automobile loans	**.83**	.60	.53	.48	.40
Credit card	**3.55**	3.65	5.65	3.92	4.70
Other consumer loans and leases	**.83**	.91	1.06	.98	1.06
Total consumer loans and leases	**.84**	.55	.57	.56	.61
Total net losses charged off	**.61%**	.44	.45	.45	.63

loans increased to 83 bp in 2007 compared to 60 bp in 2006 displaying an expected increase due to a shift in the portfolio to a higher percentage of used automobiles and an increase in loss of severity due to a market surplus of used automobiles. The net charge-off ratio on credit card balances modestly declined compared to the prior year primarily due to a large origination of card balances in 2007. Although the credit characteristics of the credit card portfolio have been maintained during the origination of new cards, including the weighted average FICO and average line outstanding, the Bancorp does expect the charge-off ratio to increase as the portfolio matures. The Bancorp employs a risk-adjusted pricing methodology to ensure adequate compensation is received for those products that have higher credit costs.

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 2007, 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 criteria 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 33 shows the changes in the allowance for credit losses during 2007.

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

TABLE 33: CHANGES IN ALLOWANCE FOR CREDIT LOSSES

For the years ended December 31 ($ in millions)	**2007**	2006	2005	2004	2003
Balance, beginning of year	**$847**	814	785	770	683
Net losses charged off	**(462)**	(316)	(299)	(252)	(312)
Provision for loan and lease losses	**628**	343	330	268	399
Net change in reserve for unfunded commitments	**19**	6	(2)	(1)	-
Balance, end of year	**$1,032**	847	814	785	770
Components of allowance for credit losses:					
Allowance for loan and lease losses	**$937**	771	744	713	697
Reserve for unfunded commitments	**95**	76	70	72	73
Total allowance for credit losses	**$1,032**	847	814	785	770

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 the 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 impaired commercial credits and other qualitative adjustments. Approximately 90% of the required reserves come from the baseline historical loss rates, specific reserve estimates and current credit grades; while 10% 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 allowance 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 allowance as the incurred losses are reflected into the main components of the methodology that drive the majority of the required reserve calculations. Unallocated allowance as a percent of total portfolio loans and leases for the year ended December 31, 2007 and 2006 were ..06%.

The allowance for loan and lease losses at December 31, 2007 increased to 1.17% of the total portfolio loans and leases compared to 1.04% at December 31, 2006. This increase is reflective of a number of factors including: the increase in delinquencies, the real estate price deterioration in some the Bancorp s key lending markets, the increase in automobile loans and credit card balances and the modest decline in

economic conditions. These factors were the primary drivers of the increased reserve factors for most of the Bancorp s loan categories. Table 34 provides the amount of the allowance for loan and lease losses by category.

Real estate price deterioration, as determined by the Home Price Index, was most prevalent in Michigan, due in part to cutbacks by automobile manufacturers, and Florida, due to past real estate price appreciation and related overdevelopment. The Bancorp has sizable exposure in both of these markets. The deterioration in real estate values increased the expected loss once a loan becomes delinquent, particularly for home equity loans with high loan-to-value ratios.

During 2007, the Bancorp grew credit card balances as part of an initiative to more fully develop relationships with its current customers. In addition, the composition of the automobile loan portfolio changed to include a larger percentage of used automobiles. Although these products naturally produce higher charge-offs, which creates the need for a larger allowance for credit losses, the Bancorp employs a risk-adjusted pricing methodology to ensure adequate compensation is received for those products that have higher credit costs.

If trends in charge-offs, delinquent loans and economic conditions continue to deteriorate in 2008, the Bancorp would expect to record a larger allowance for credit losses in accordance with its allowance methodology. Overall, the Bancorp s long history of low exposure limits, lack of exposure to subprime lending businesses, centralized risk management and its diversified portfolio reduces the likelihood of significant unexpected credit losses.

TABLE 34: ATTRIBUTION OF ALLOWANCE FOR LOAN AND LEASE LOSSES TO PORTFOLIO LOANS AND LEASES

As of December 31 ($ in millions)	**2007**	2006	2005	2004	2003
Allowance attributed to:					
Commercial loans	**$271**	252	201	210	234
Commercial mortgage loans	**135**	95	78	73	77
Commercial construction loans	**98**	49	46	42	34
Residential mortgage loans	**67**	51	38	45	29
Consumer loans	**287**	247	183	160	146
Lease financing	**32**	29	56	47	64
Unallocated	**47**	48	142	136	113
Total allowance for loan and lease losses	**$937**	771	744	713	697
Portfolio loans and leases:					
Commercial loans	**$24,813**	20,831	19,253	16,107	14,244
Commercial mortgage loans	**11,862**	10,405	9,188	7,636	6,894
Commercial construction loans	**5,561**	6,168	6,342	4,347	3,301
Residential mortgage loans	**10,540**	8,830	7,847	7,366	4,760
Consumer loans	**22,943**	23,204	22,006	18,875	17,398
Lease financing	**4,534**	4,915	5,289	5,477	5,711
Total portfolio loans and leases	**$80,253**	74,353	69,925	59,808	52,308
Attributed allowance as a percent of respective portfolio loans:					
Commercial loans	**1.09%**	1.21	1.05	1.31	1.65
Commercial mortgage loans	**1.14**	.91	.85	.96	1.12
Commercial construction loans	**1.77**	.80	.72	.96	1.03
Residential mortgage loans	**.63**	.58	.49	.61	.61
Consumer loans	**1.25**	1.06	.83	.85	.84
Lease financing	**.69**	.59	1.06	.86	1.12
Unallocated (as a percent of total portfolio loans and leases)	**.06**	.06	.20	.23	.22
Total portfolio loans and leases	**1.17%**	1.04	1.06	1.19	1.33

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MARKET RISK MANAGEMENT

Market risk arises from the potential for market fluctuations in interest rates, foreign exchange rates and equity prices that may result in potential reductions in 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 expected 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 originations, the value of servicing rights and other sources of the Bancorp s earnings. Stability of the Bancorp s net interest income is largely dependent upon the effective management of interest rate risk. Management continually reviews the Bancorp s balance sheet composition and models the interest rate risk, and possible actions to reduce this risk, given numerous possible 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 contractual and assumed 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. 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 ERM that provides independent oversight of market risk activities. The Bancorp s current interest rate risk exposure is evaluated 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.

Table 35 shows the Bancorp s estimated earnings sensitivity profile and the ALCO policy limits on the asset and liability positions as of December 31, 2007:

TABLE 35: ESTIMATED EARNINGS SENSITIVITY PROFILE

	Change in Net Interest Income (FTE)		ALCO Policy Limits	
Change in Interest Rates (bp)	12 Months	13 to 24 Months	12 Months	13 to 24 Months
+200	(.31)%	3.19	(5.00)	(7.00)
+100	(.30)	1.53	-	-
-100	1.11	.60	-	-
-200	1.44	(2.70)	(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 the 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 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, 2007:

TABLE 36: ESTIMATED EVE SENSITIVITY PROFILE

Change in Interest Rates (bp)	Change in EVE	ALCO Policy Limits
+200	(8.18)%	(20.0)
-200	2.06	(20.0)

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 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. In addition, the Bancorp hedges its exposure to mortgage loans held for sale.

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, 2007 are included in Note 10 of the Notes to Consolidated Financial Statements.

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

TABLE 37: PORTFOLIO LOAN AND LEASE PRINCIPAL CASH FLOWS

As of December 31, 2007 ($ in millions)	Less than 1 year	1-5 years	Greater than 5 years	Total
Commercial loans	$13,266	10,035	1,512	24,813
Commercial mortgage loans	5,154	4,946	1,762	11,862
Commercial construction loans	3,860	1,302	399	5,561
Commercial leases	615	1,523	1,599	3,737
Residential mortgage loans	2,795	4,066	3,679	10,540
Home equity	2,300	4,878	4,696	11,874
Automobile loans	3,305	5,377	519	9,201
Credit card	191	1,400	-	1,591
Other consumer loans and leases	486	536	52	1,074
Total	$31,972	34,063	14,218	80,253

TABLE 38: PORTFOLIO LOAN AND LEASE PRINCIPAL CASH FLOWS OCCURRING AFTER ONE YEAR

	Interest Rate	
As of December 31, 2007 ($ in millions)	**Fixed**	**Floating or Adjustable**
Commercial loans	$2,546	9,001
Commercial mortgage loans	2,339	4,369
Commercial construction loans	432	1,269
Commercial leases	3,122	-
Residential mortgage loans	4,217	3,528
Home equity	1,673	7,901
Automobile loans	5,896	-
Credit card	470	930
Other consumer loans and leases	579	9
Total	$21,274	27,007

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 37 shows a summary of the expected principal cash flows of the Bancorp s portfolio loans and leases as of December 31, 2007. Additionally, Table 38 shows a summary of expected principal cash flows occurring after one year as of December 31, 2007.

Mortgage Servicing Rights and Interest Rate Risk

The net carrying amount of the MSR portfolio was $610 million as of December 31, 2007 compared to $519 million as of December 31, 2006. The Bancorp maintains a non-qualifying hedging strategy relative to its mortgage banking activity in order to manage a portion of the risk associated with changes in the 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 opportunities, the total value of existing servicing rights declines because no further servicing fees are collected on repaid loans.

The decrease in interest rates, particularly during the fourth quarter of 2007, led to the recognition of $22 million in temporary impairment of servicing rights during 2007, compared to a recovery of temporary impairment of $19 million in 2006. Servicing rights are deemed temporarily impaired when a borrower s loan rate is distinctly higher than prevailing market rates. Impairment on servicing rights is reversed when the prevailing rates return to a level commensurate with the borrower s loan rate. The Bancorp recognized a gain of $29 million in 2007 and a loss of $6 million in 2006 on free-standing derivatives and the sale of securities used to economically hedge the MSR portfolio. See Note 9 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, 2007 was approximately $329 million compared to approximately $219 million at December 31, 2006. 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.

LIQUIDITY RISK MANAGEMENT

The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand, unexpected deposit withdrawals and other contractual obligations. A summary of certain obligations and commitments to make future payments under contracts is included in Table 42. Mitigating liquidity risk 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 6.8 years at December 31, 2007, based on current prepayment expectations. Of the $10.7 billion (fair value basis) of securities in the available-for-sale portfolio at December 31, 2007, $2.0 billion in principal and interest is expected to be received in the next 12 months, and an additional $1.5 billion is expected to be received in the next 13 to 24 months. In addition to available-for-sale securities, 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 automobile loans and other consumer loans are also capable of being securitized, sold or transferred off-balance sheet. For the year ended December 31, 2007 and 2006,

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TABLE 39: AGENCY RATINGS

As of December 31, 2007	Moody s	Standard and Poor s	Fitch	DBRS
Fifth Third Bancorp:				
Commercial paper	Prime-1	A-1	F1+	R-1M
Senior debt	Aa3	A+	AA-	AAL
Subordinated debt	A1	A	A+	A
Fifth Third Bank and Fifth Third Bank (Michigan):				
Short-term deposit	Prime-1	A-1+	F1+	R-1H
Long-term deposit	Aa2	AA-	AA	AA
Senior debt	Aa2	AA-	AA-	
Subordinated debt	Aa3	A+	A+	

loans totaling $12.2 billion and $9.2 billion, respectively, were sold, securitized or transferred off-balance sheet.

In 2007, an indirect, wholly-owned special purpose subsidiary of the Bancorp established an effective shelf registration with the SEC to issue securities backed by automobile loans originated by the Bancorp s Ohio and Michigan subsidiary banks. As of December 31, 2007, the Bancorp held $2.0 billion in held for sale automobile loans. The effect of the forecasted sale and securitization of these loans on the Bancorp s financial results will depend on future market developments and related management decisions.

Additionally, the Bancorp has a shelf registration in place with the SEC permitting ready access to the public debt markets and qualifies as a well-known seasoned issuer under SEC rules. As of December 31, 2007, $5.8 billion of debt or other securities were available for issuance from this shelf registration under the current Bancorp s Board of Directors authorizations. The Bancorp also has $16.2 billion of funding available for issuance through private offerings of debt securities pursuant to its bank note program. These sources, in addition to a 9.35% average equity capital base, provide the Bancorp with 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 70% of its average total assets during 2007. 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. Management does not rely on any one source of liquidity and manages availability in response to changing balance sheet needs.

Table 39 provides Moody s, Standard and Poor s, Fitch s and DBRS 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, 2007, shareholders equity was $9.2 billion,

compared to $10.0 billion at December 31, 2006. Tangible equity as a percent of tangible assets was 6.05% at December 31, 2007 and 7.79% at December 31, 2006. The declines in shareholders equity and the tangible equity ratios are primarily a result of $1.1 billion in share repurchases during 2007. In March, August, and October of 2007, Fifth Third Capital Trust IV, V and VI, wholly-owned non-consolidated subsidiaries of the Bancorp, issued $750 million, $575 million and $863 million of Tier I-qualifying trust preferred securities to third party investors and invested the proceeds in junior subordinated notes issued by the Bancorp. See Note 13 of the Notes to Consolidated Financial Statements for further discussion of these issuances.

Regulatory capital ratios were lower compared with the prior year and were negatively affected by $1.1 billion in common stock share repurchases throughout 2007, the approximately $690 million repurchase of Tier I-qualifying outstanding shares of its Fifth Third REIT Series B Preferred Stock on December 27, 2007 and 12% growth in risk-weighted assets. The negative impacts of these factors were partially offset by the previously mentioned issuance of Tier I-qualifying trust preferred securities.

The Federal Reserve Board established quantitative measures that assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements (risk-based capital ratios). Additionally, the guidelines define well-capitalized ratios for Tier I, total risk-based capital and leverage as 6%, 10% and 5%, respectively. The Bancorp exceeded these well-capitalized ratios for all periods presented. See Note 25 of the Notes to Consolidated Financial Statements for additional information regarding regulatory capital ratios.

Dividend Policy and Stock Repurchase Program

The Bancorp views dividends and share repurchases as an effective means of delivering value to shareholders. 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 2007, the Bancorp paid dividends per common share of $1.70, an increase of eight percent over the $1.58 paid in 2006 and an increase of 16% over the $1.46 paid in 2005.

The Bancorp s stock repurchase program is an important element of its capital planning activities. The Bancorp s repurchase of equity securities is shown in Table 41 and details on

TABLE 40: CAPITAL RATIOS

As of December 31 ($ in millions)	**2007**	2006	2005	2004	2003
Average equity as a percent of average assets	**9.35%**	9.32	9.06	9.34	10.01
Tangible equity as a percent of tangible assets	**6.05**	7.79	6.87	8.35	8.56
Tier I capital	**$8,924**	8,625	8,209	8,522	8,168
Total risk-based capital	**11,733**	11,385	10,240	10,176	9,992
Risk-weighted assets	**115,529**	102,823	98,293	82,633	74,477
Regulatory capital ratios:					
Tier I capital	**7.72%**	8.39	8.35	10.31	10.97
Total risk-based capital	**10.16**	11.07	10.42	12.31	13.42
Tier I leverage	**8.50**	8.44	8.08	8.89	9.11

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TABLE 41: SHARE REPURCHASES

For the years ended December 31	**2007**	2006	2005
Shares authorized for repurchase at January 1	**15,807,045**	17,846,953	35,685,112
Additional authorizations	**30,000,000**	-	20,000,000
Shares repurchases*(a)*	**(26,605,527)**	(2,039,908)	(37,838,159)
Shares authorized for repurchase at December 31	**19,201,518**	15,807,045	17,846,953
Average price paid per share	**$40.70**	39.72	43.19

(a) Excludes 365,867, 357,612 and 134,435 shares repurchased during 2007, 2006 and 2005, respectively, in connection with various employee compensation plans. These repurchases are not included in the calculation for average price paid and do not count against the maximum number of shares that may yet be repurchased under the Board of Directors authorization.

the repurchase activity can be found in Note 18 of the Notes to Consolidated Financial Statements. On May 21, 2007, the Bancorp announced that its Board of Directors had authorized management to purchase 30 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, 2007, the Bancorp had approximately 19 million shares remaining under the current Board of Directors authorization.

Off-Balance Sheet Arrangements

The Bancorp consolidates all of its majority-owned subsidiaries and variable interest entities for which the Bancorp is the primary beneficiary. Other entities, including certain joint ventures in which there is greater than 20% ownership, but upon which the Bancorp does not possess and cannot 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.

In the ordinary course of business, the Bancorp enters into financial transactions to extend credit, and various forms of commitments and guarantees that may be considered off-balance sheet arrangements. These transactions involve varying elements of market, credit and liquidity risk. The nature and extent of these transactions are provided in Note 14 of the Notes to Consolidated Financial Statements. In addition, the Bancorp uses conduits, asset securitizations and certain defined guarantees to provide a source of funding. The use of these investment vehicles involves differing degrees of risk. A summary of these transactions is provided below.

Through December 31, 2007 and 2006, 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 theses loans to the QSPE allows the Bancorp to reduce its exposure to these lower yielding loan assets while maintaining the customer relationships. Under current accounting provisions, QSPEs are exempt from consolidation and, therefore, not included in the Bancorp s financial statements. The outstanding balance of such loans at December 31, 2007 and 2006 was $3.0 billion and $3.4 billion, respectively. As of December 31, 2007, the loans transferred had a weighted average life of 2.3 years. 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. In 2007 and 2006, the QSPE did not transfer any loans back to the Bancorp as a result of a credit event. In addition, there have been no material changes in the overall ratings of the loans transferred to the QSPE. For the year ended December 31, 2007, the Bancorp collected $1.1

billion in cash proceeds from loan transfers and $30 million in fees from the QSPE. For the year ended December 31, 2006, the Bancorp collected $1.6 billion in cash proceeds from loan transfers and $30 million in fees from the QSPE.

The QSPE issues commercial paper and uses the proceeds to fund the acquisition of commercial loans transferred to it by the Bancorp. The Bancorp also agrees to provide liquidity support to the QSPE. As of December 31, 2007 and 2006, the liquidity agreement was $5.0 billion and $3.8 billion, respectively. The increase in liquidity facility during 2007 was due to the anticipated increase in the volume of commercial loans transferred to the QSPE. During the second half of 2007, the Bancorp purchased asset-backed commercial paper from the QSPE and, as of December 31, 2007, held $83 million of the QSPE s asset-backed commercial paper. The decision to purchase commercial paper from the QSPE was due to widening credit spreads in the commercial paper market and not due to a material difficulty in obtaining funding. At December 31, 2007 and 2006, the Bancorp s loss reserve related to the liquidity support and credit enhancement provided to the QSPE was $19 million and $16 million, respectively, and was recorded in other liabilities on the Consolidated Balance Sheets.

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 automobile 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 interests that continue to held by the Bancorp. The Bancorp s securitization policy permits the retention of subordinated tranches, servicing rights, interest-only strips, residual interests, limited credit recourse and, in some cases, a cash reserve account. At December 31, 2007, the Bancorp had retained servicing assets totaling $618 million, subordinated tranche security interests totaling $3 million and residual interests totaling $10 million. 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. For the years ended December 31, 2007 and 2006 cash proceeds from transfers reinvested in revolving-period securities totaled $73 million and $97 million, respectively. Additionally, for the years ended December 31, 2007 and 2006, the Bancorp received fees of $2 million and $5 million, respectively, from securitization trusts.

At December 31, 2007 and 2006, the Bancorp had provided credit recourse on approximately $1.5 billion and $1.3 billion, respectively, 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 $17 million and $18 million relating to these residential mortgage loans sold at December 31, 2007 and 2006, 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. The aggregate contractual obligations and commitments at December 31, 2007 are shown in Table 42. As of December 31, 2007, the

Bancorp has unrecognized tax benefits that, if recognized, would impact the effective tax rate in future periods. Due to the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, all uncertain tax liabilities that have not been paid have been excluded from the Contractual Obligations and Other Commitments table. Further detail on the impact of income taxes is located in Note 21 of the Notes to the Consolidated Financial Statements.

TABLE 42: CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

	Less than			Greater than	
As of December 31, 2007 ($ in millions)	1 year	1-3 years	3-5 years	5 years	Total
Contractually obligated payments due by period:					
Total deposits *(a)*	$73,528	308	60	1,549	75,445
Long-term debt *(b)*	2,225	3,623	1,008	6,001	12,857
Short-term borrowings *(c)*	9,174	-	-	-	9,174
Noncancelable leases *(d)*	78	142	120	394	734
Partnership investment commitments *(e)*	307	-	-	-	307
Pension obligations *(f)*	20	41	38	83	182
Capital expenditures *(g)*	94	-	-	-	94
Purchase obligations *(h)*	17	27	8	-	52
Total contractually obligated payments due by period	$85,443	4,141	1,234	8,027	98,845
Other commitments by expiration period:					
Commitments to extend credit *(i)*	$28,571	21,217	-	-	49,788
Letters of credit *(j)*	2,759	3,419	1,849	495	8,522
Total other commitments by expiration period	$31,330	24,636	1,849	495	58,310

(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 13 of the Notes to Consolidated Financial Statements for additional information on these debt instruments.

(c) Includes federal funds purchased and borrowings with an original maturity of less than one year. For additional information, see Note 12 of the Notes to Consolidated Financial Statements.

(d) Includes both operating and capital leases.

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

(f) See Note 22 of the Notes to Consolidated Financial Statements for additional information on pension obligations.

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

(h) Represents agreements to purchase goods or services.

(i) Commitments to extend credit are agreements to lend, typically having fixed expiration dates or other termination clauses that may require payment of a fee. Many of the commitments to extend credit may expire without being drawn upon. The total commitment amounts do not necessarily represent future cash flow requirements.

(j) Letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party.

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

The Bancorp conducted an evaluation, under the supervision and with the participation of the Bancorp s management, including the Bancorp s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bancorp s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on the foregoing, as of the end of the period covered by this report, the Bancorp s Chief Executive Officer and Chief Financial Officer concluded that the Bancorp s disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Bancorp files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

The management of Fifth Third Bancorp is responsible for establishing and maintaining adequate internal control, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Bancorp s management assessed the effectiveness of the Bancorp s internal control over financial reporting as of December 31, 2007. 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, 2007. Based on this assessment, management believes that the Bancorp maintained effective internal control over financial reporting as of December 31, 2007. 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, 2007. This report appears on page 51 of the annual report.

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

Kevin T. Kabat
President and Chief Executive Officer
February 22, 2008

Christopher G. Marshall
Executive Vice President and Chief Financial Officer
February 22, 2008

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Fifth Third Bancorp and subsidiaries (the Bancorp) as of December 31, 2007, 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, included in the accompanying Management s Assessment as to the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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, the Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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, 2007 of the Bancorp and our report dated February 22, 2008 expressed an unqualified opinion on those consolidated financial statements.

Cincinnati, Ohio
February 22, 2008
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, 2007 and 2006, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Bancorp s management. Our responsibility is to express an opinion on these consolidated 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, 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 Bancorp s internal control over financial reporting as of December 31, 2007, 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 22, 2008 expressed unqualified opinion on the Bancorp s internal control over financial reporting.

Cincinnati, Ohio
February 22, 2008

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 ($ in millions, except per share data)	**2007**	2006	2005
Interest Income			
Interest and fees on loans and leases	**$5,418**	5,000	3,918
Interest on securities	**590**	934	1,071
Interest on other short-term investments	**19**	21	6
Total interest income	**6,027**	5,955	4,995
Interest Expense			
Interest on deposits	**2,007**	1,910	1,148
Interest on other short-term borrowings	**324**	402	282
Interest on long-term debt	**687**	770	600
Total interest expense	**3,018**	3,082	2,030
Net Interest Income	**3,009**	2,873	2,965
Provision for loan and lease losses	**628**	343	330
Net Interest Income After Provision for Loan and Lease Losses	**2,381**	2,530	2,635
Noninterest Income			
Electronic payment processing revenue	**826**	717	622
Service charges on deposits	**579**	517	522
Investment advisory revenue	**382**	367	358
Corporate banking revenue	**367**	318	299
Mortgage banking net revenue	**133**	155	174
Other noninterest income	**153**	299	360
Securities gains (losses), net	**21**	(364)	39
Securities gains - non-qualifying hedges on mortgage servicing rights	**6**	3	-
Total noninterest income	**2,467**	2,012	2,374
Noninterest Expense			
Salaries, wages and incentives	**1,239**	1,174	1,133
Employee benefits	**278**	292	283
Net occupancy expense	**269**	245	221
Payment processing expense	**244**	184	145
Technology and communications	**169**	141	142
Equipment expense	**123**	116	105
Other noninterest expense	**989**	763	772
Total noninterest expense	**3,311**	2,915	2,801
Income Before Income Taxes and Cumulative Effect	**1,537**	1,627	2,208
Applicable income taxes	**461**	443	659
Income Before Cumulative Effect	**1,076**	1,184	1,549
Cumulative effect of change in accounting principle, net of tax *(a)*	**-**	4	-
Net Income	**$1,076**	1,188	1,549
Net Income Available to Common Shareholders *(b)*	**$1,075**	1,188	1,548
Earnings Per Share	**$2.00**	2.14	2.79
Earnings Per Diluted Share	**$1.99**	2.13	2.77

(a) Reflects a benefit of $4 million (net of $2 million of tax) for the adoption of SFAS No. 123(R) as of January 1, 2006.
(b) Dividends on preferred stock are $.740 million for all years presented.

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

As of December 31 ($ in millions, except share data)	2007	2006
Assets		
Cash and due from banks	**$2,687**	2,737
Available-for-sale and other securities *(a)*	**10,677**	11,053
Held-to-maturity securities *(b)*	**355**	356
Trading securities	**171**	187
Other short-term investments	**593**	809
Loans held for sale	**4,329**	1,150
Portfolio loans and leases:		
Commercial loans	**24,813**	20,831
Commercial mortgage loans	**11,862**	10,405
Commercial construction loans	**5,561**	6,168
Commercial leases	**3,737**	3,841
Residential mortgage loans	**10,540**	8,830
Home equity	**11,874**	12,153
Automobile loans	**9,201**	10,028
Credit card	**1,591**	1,004
Other consumer loans and leases	**1,074**	1,093
Portfolio loans and leases	**80,253**	74,353
Allowance for loan and lease losses	**(937)**	(771)
Portfolio loans and leases, net	**79,316**	73,582
Bank premises and equipment	**2,223**	1,940
Operating lease equipment	**353**	202
Goodwill	**2,470**	2,193
Intangible assets	**147**	166
Servicing rights	**618**	524
Other assets	**7,023**	5,770
Total Assets	**$110,962**	100,669
Liabilities		
Deposits:		
Demand	**$14,404**	14,331
Interest checking	**15,254**	15,993
Savings	**15,635**	13,181
Money market	**6,521**	6,584
Other time	**11,440**	10,987
Certificates - $100,000 and over	**6,738**	6,628
Foreign office	**5,453**	1,676
Total deposits	**75,445**	69,380
Federal funds purchased	**4,427**	1,421
Other short-term borrowings	**4,747**	2,796
Accrued taxes, interest and expenses	**2,427**	2,283
Other liabilities	**1,898**	2,209
Long-term debt	**12,857**	12,558
Total Liabilities	**101,801**	90,647
Shareholders Equity		
Common stock *(c)*	**1,295**	1,295
Preferred stock *(d)*	**9**	9
Capital surplus	**1,779**	1,812
Retained earnings	**8,413**	8,317
Accumulated other comprehensive income	**(126)**	(179)
Treasury stock	(2,209)	(1,232)
Total Shareholders Equity	**9,161**	10,022
Total Liabilities and Shareholders Equity	**$110,962**	100,669

(a) Amortized cost: ***December 31, 2007 - $10,821*** *and December 31, 2006 - $11,236*

(b) Market values: ***December 31, 2007 - $355*** *and December 31, 2006 - $356*

(c) Common shares: Stated value $2.22 per share; authorized 1,300,000,000; outstanding at ***December 31, 2007 - 532,671,925 (excludes 51,516,339 treasury shares)*** *and December 31, 2006 - 556,252,674 (excludes 27,174,430 treasury shares).*

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

($ in millions, except per share data)	Common Stock	Preferred Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2004	$1,295	9	1,934	7,269	(169)	(1,414)	8,924
Net income				1,549			1,549
Other comprehensive income					(244)		(244)
Comprehensive income							1,305
Cash dividends declared:							
Common stock at $1.46 per share				(810)			(810)
Preferred stock				(1)			(1)
Shares acquired for treasury			97			(1,746)	(1,649)
Stock-based compensation expense			65				65
Restricted stock grants			(43)			43	-
Stock-based awards exercised, including treasury shares issued			(121)			206	85
Loans repaid related to the exercise of stock-based awards, net			11				11
Change in corporate tax benefit related to stock-based compensation			6				6
Shares issued in business combinations	11		85			1,413	1,509
Retirement of shares	(11)		(208)			219	-
Other			1				1
Balance at December 31, 2005	1,295	9	1,827	8,007	(413)	(1,279)	9,446
Net income				1,188			1,188
Other comprehensive income					288		288
Comprehensive income							1,368
Cumulative effect of change in accounting for pension and other postretirement obligations					(54)		(54)
Cash dividends declared:							
Common stock at $1.58 per share				(880)			(880)
Preferred stock				(1)			(1)
Shares acquired for treasury						(82)	(82)
Stock-based compensation expense			76	1			77
Impact of cumulative effect of change in accounting principle			(6)				(6)
Restricted stock grants			(45)			45	-
Stock-based awards exercised, including treasury shares issued			(49)			84	35
Loans repaid related to the exercise of stock-based awards, net			8				8
Change in corporate tax benefit related to stock-based compensation			(1)				(1)
Other			2	2			4
Balance at December 31, 2006	1,295	9	1,812	8,317	(179)	(1,232)	10,022
Net income				1,076			1,076
Other comprehensive income					53		53
Comprehensive income							1,129
Cash dividends declared:							
Common stock at $1.70 per share				(914)			(914)
Preferred stock				(1)			(1)
Shares acquired for treasury						(1,084)	(1,084)
Stock-based compensation expense			60	1			61
Impact of cumulative effect of change in accounting principle				(98)			(98)
Restricted stock grants			(59)			59	-
Stock-based awards exercised, including treasury shares issued			(39)			86	47
Loans repaid related to the exercise of stock-based awards, net			2				2
Change in corporate tax benefit related to stock-based compensation			2				2
Employee stock ownership through benefit plans				38		(38)	-
Impact of diversification of nonqualified deferred compensation plan				(8)			(8)
Other			1	2			3
Balance at December 31, 2007	$1,295	9	1,779	8,413	(126)	(2,209)	9,161

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ in millions)	**2007**	2006	2005
Operating Activities			
Net Income	**$1,076**	1,188	1,549
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for loan and lease losses	**628**	343	330
Cumulative effect of change in accounting principle, net of tax	**-**	(4)	-
Depreciation, amortization and accretion	**367**	399	405
Stock-based compensation expense	**61**	77	65
Benefit for deferred income taxes	**(178)**	(21)	(16)
Realized securities gains	**(16)**	(44)	(46)
Realized securities gains - non-qualifying hedges on mortgage servicing rights	**(6)**	(3)	-
Realized securities losses	**2**	408	7
Net gains on sales of loans	**(95)**	(131)	(162)
Loans originated for sale, net of repayments	**(13,125)**	(8,671)	(8,683)
Proceeds from sales of loans held for sale	**11,027**	8,812	7,881
Decrease (increase) in trading securities	**16**	(70)	(40)
Decrease (increase) in other assets	**108**	(1,440)	(922)
Increase (decrease) in accrued taxes, interest and expenses	**194**	(31)	58
Excess tax benefit related to stock-based compensation	**(4)**	-	(16)
(Decrease) increase in other liabilities	**(741)**	642	355
Net Cash (Used In) Provided by Operating Activities	**(686)**	1,454	765
Investing Activities			
Proceeds from sales of available-for-sale securities	**2,071**	12,568	5,912
Proceeds from calls, paydowns and maturities of available-for-sale securities	**13,468**	3,033	5,271
Purchases of available-for-sale securities	**(15,541)**	(4,676)	(7,785)
Proceeds from calls, paydowns and maturities of held-to-maturity securities	**11**	38	48
Purchases of held-to-maturity securities	**(11)**	(5)	(181)
Decrease (increase) in other short-term investments	**219**	(651)	402
Net increase in loans and leases	**(6,181)**	(5,145)	(8,297)
Proceeds from sales of loans	**745**	540	1,816
(Increase) decrease in operating lease equipment	**(172)**	(77)	124
Purchases of bank premises and equipment	**(459)**	(443)	(437)
Proceeds from disposal of bank premises and equipment	**46**	60	56
Net cash (paid) acquired in business combination	**(230)**	(5)	242
Net Cash (Used In) Provided by Investing Activities	**(6,034)**	5,237	(2,829)
Financing Activities			
Increase in core deposits	**2,225**	1,467	3,874
Increase in certificates - $100,000 and over, including other foreign office	**2,101**	479	1,491
Increase (decrease) in federal funds purchased	**3,006**	(3,902)	130
Decrease in short-term bank notes	**-**	-	(775)
Increase (decrease) in other short-term borrowings	**1,951**	(1,462)	(687)
Proceeds from issuance of long-term debt	**4,801**	3,731	4,665
Repayment of long-term debt	**(5,494)**	(6,441)	(3,782)
Payment of cash dividends	**(898)**	(867)	(794)
Exercise of stock-based awards, net	**49**	43	96
Purchases of treasury stock	**(1,084)**	(82)	(1,649)
Excess tax benefit related to stock-based compensation	**4**	-	16
Other	**9**	2	(4)
Net Cash Provided by (Used In) Financing Activities	**6,670**	(7,032)	2,581
(Decrease) Increase in Cash and Due from Banks	**(50)**	(341)	517
Cash and Due from Banks at Beginning of Year	**2,737**	3,078	2,561
Cash and Due from Banks at End of Year	**$2,687**	2,737	3,078
Cash Payments			
Interest	**$2,996**	3,051	1,952
Income taxes	**535**	489	676
Supplemental Cash Flow Information			
Transfer from portfolio loans to loans held for sale, net	**1,200**	(138)	(16)
Business Acquisitions:			
Fair value of tangible assets acquired (noncash)	**2,446**	6	5,149
Goodwill and identifiable intangible assets acquired	**297**	17	1,297
Liabilities assumed and note issued	**(2,513)**	(18)	(5,179)
Stock options	**-**	-	(63)
Common stock issued	**-**	-	(1,446)

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations

Fifth Third Bancorp (Bancorp), an Ohio corporation, conducts its principal lending, deposit gathering, transaction processing and service advisory activities through its banking and non-banking subsidiaries from banking centers located throughout the Midwestern and Southeastern regions of the United States.

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Bancorp and its majority-owned subsidiaries and variable interest entities in which the Bancorp has been determined to be the primary beneficiary. Other entities, including certain joint ventures, in which there is greater than 20% ownership, but upon which the Bancorp does not possess and cannot exert significant influence or control, are accounted for by the equity method and not consolidated; those in which there is less than 20% ownership are generally carried at the lower of cost or fair value. Intercompany transactions and balances have been eliminated. Certain prior period data has been reclassified to conform to current period presentation.

Use of Estimates

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

Securities

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

Loans and Leases

Interest income on loans and leases is based on the principal balance outstanding computed using the effective interest method. The accrual of interest income for commercial loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due. Such loans are also placed on nonaccrual status when the principal or interest is past due ninety days or more, unless the loan is well secured and in the process of collection. When a loan

is placed on nonaccrual status, all previously accrued and unpaid interest is charged against income and the loan is accounted for on the cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan is returned to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement or when the loan is both well secured and in the process of collection. Consumer loans and revolving lines of credit for equity lines that have principal and interest payments that have become past due one hundred and twenty days and residential mortgage loans and credit cards that have principal and interest payments that have become past due one hundred and eighty days are charged off to the allowance for loan and lease losses. Commercial loans are subject to individual review to identify charge-offs. Refer to the Allowance for Loan and Lease Losses below for further discussion.

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

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

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

Impaired loans and leases are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or the fair value of the underlying collateral. The Bancorp evaluates the collectibility of both principal and interest when assessing the need for a loss accrual.

Other Real Estate Owned

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

Allowance for Loan and Lease Losses

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In determining the appropriate level of the allowance, the Bancorp estimates losses using a range derived from base and conservative estimates.

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

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

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

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

The Bancorp s primary market areas for lending are the Midwestern and Southeastern regions of the United States. 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 to its overall approach in the determination of allowance for loan and lease losses. There have been no material changes in criteria or estimation techniques as compared to prior periods that impacted the determination of the

current period allowance for loan and lease losses.

Reserve for Unfunded Commitments

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

Loan Sales and Securitizations

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

Servicing rights resulting from residential mortgage and commercial loan sales are amortized in proportion to and over the period of estimated net servicing revenues and are reported as a component of mortgage banking net revenue and corporate banking revenue, respectively, in the Consolidated Statements of Income. Servicing rights are assessed for impairment monthly, based on fair value, with temporary impairment recognized through a valuation allowance and permanent impairment recognized through a write-off of the servicing asset and related valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing rights include the prepayment speed of the underlying loans, the weighted-average life of the loans, the discount rate and the weighted-average default rate, as applicable. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speeds. The Bancorp monitors this risk and adjusts its valuation allowance as necessary to adequately reserve for any probable impairment in the portfolio. For purposes of measuring impairment, the mortgage servicing rights are stratified into classes based on the financial asset type and interest rates. Fees received

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for servicing loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in noninterest income as loan payments are received. Costs of servicing loans are charged to expense as incurred.

Bank Premises and Equipment

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

Derivative Financial Instruments

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

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

Income Taxes

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

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

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

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in accrued taxes, interest and expenses in the Consolidated Balance Sheets. The Bancorp evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period s income tax expense and can be significant to the operating results of the Bancorp. As of January 1, 2007, the Bancorp adopted FIN 48; see New Accounting Pronouncements for the impact of adopting this interpretation. As described in greater detail in Note 15, the Internal Revenue Service is currently challenging the Bancorp s tax treatment of certain leasing transactions. For additional information on income taxes, see Note 21.

Earnings Per Share

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

Other

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

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

The Bancorp purchases life insurance policies on the lives of certain directors, officers and employees and is the owner and beneficiary of the policies. The Bancorp invests in these policies, known as BOLI, to provide an efficient form of funding for long-term retirement and other employee benefits costs. The Bancorp records these BOLI policies within other assets in the Consolidated Balance Sheets at each policy s respective cash surrender value, with changes recorded in noninterest income in the Consolidated Statements of Income.

Other intangible assets consist of core deposits, customer lists, non-competition agreements and cardholder relationships. Other intangibles are amortized on either a straight-line or an accelerated basis over their useful lives. The Bancorp reviews other intangible assets for impairment whenever events or

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changes in circumstances indicate that carrying amounts may not be recoverable.

Goodwill acquired as a result of a business combination is not amortized and is tested for impairment on a yearly basis or more frequently when events or changes in circumstances indicate that carrying amounts may not be recoverable.

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

Advertising costs are generally expensed as incurred.

New Accounting Pronouncements

In December 2004, the FASB issued Statement of SFAS No. 123 (Revised 2004), Share-Based Payment. This Statement requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award with the cost to be recognized over the vesting period. This Statement was effective for financial statements as of the beginning of the first interim or annual reporting period of the first fiscal year beginning after September 15, 2005. On January 1, 2006, the Bancorp elected to adopt this Statement using the modified retrospective application. Adoption of this Statement had three impacts on the Bancorp s Consolidated Financial Statements: i) the recognition of a benefit for the cumulative effect of change in accounting principle of approximately $4 million (net of $2 million of tax) during the first quarter of 2006 due to the recognition of an estimate of forfeiture experience to be realized for all unvested stock-based awards outstanding, ii) the reclassification in the Consolidated Statements of Cash Flows of net cash provided related to the excess corporate tax benefit received on stock-based compensation, previously recorded in the operating activities section, to the financing activities section and iii) the recognition of approximately $9 million of incremental salaries, wages and incentives expense in the second quarter of 2006 related to the issuance in April 2006 of stock-based awards to retirement-eligible employees. The adoption of this Statement did not have an impact on basic or diluted earnings per share. For further information on stock-based compensation, see Note 19.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statement No. 133 and 140. This Statement amends FASB SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - A Replacement of FASB Statement No. 125, as well as resolves issues addressed in Statement No. 133 Implementation Issue No. D1, Application of Statement No. 133 to Beneficial Interests in Securitized Financial Assets. Specifically, this Statement: i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are free-standing derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and v) amends SFAS No. 140 to eliminate the prohibition on a QSPE from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement was effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this Statement on January 1, 2007 did not have a material effect on the Bancorp s Consolidated Financial Statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140. This Statement amends SFAS No. 140 and requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this Statement permits the Bancorp to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. This Statement was effective as of the beginning of the first fiscal year that begins after September 15, 2006. Upon adoption of this Statement on January 1, 2007, the Bancorp elected to continue to report all classes of servicing assets and liabilities at amortized cost subsequent to initial recognition at fair value. The adoption of this Statement did not have a material effect on the Bancorp s Consolidated Financial Statements.

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

During May 2005, the Bancorp filed suit in the United States District Court for the Southern District of Ohio related to a dispute with the Internal Revenue Service concerning the timing of deductions associated with certain leveraged lease transactions in its 1997 tax return. The Internal Revenue Service has also proposed adjustments to the tax effects of certain leveraged lease transactions in subsequent tax return years. The proposed adjustments, including penalties, relate to the Bancorp s portfolio of lease-in lease-out transactions, service contract leases and qualified technology equipment leases with both domestic and foreign municipalities. The Bancorp is challenging the Internal Revenue Service s proposed treatment of all of these leasing

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transactions. The Bancorp s original net investment in these leases totaled approximately $900 million. The Bancorp continues to believe that its treatment of these leveraged leases was appropriate and in compliance with applicable tax law and regulations. While management cannot predict with certainty the result of the suit, given the tax treatment of these transactions has been challenged by the Internal Revenue Service, the Bancorp believes a resolution may involve a projected change in the timing of these leveraged lease cash flows.

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

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is a recognition process to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to be recognized in the financial statements. In May 2007, the FASB issued FSP No. FIN 48-1, Definition of Settlement in FASB FIN 48. FSP No. FIN 48-1 amends FIN 48 to provide guidance on determining whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The concept of effectively settled replaces the concept of ultimately settled originally issued in FIN 48. The tax position can be considered effectively settled upon completion of an examination by the taxing authority if the entity does not plan to appeal or litigate any aspect of the tax position and it is remote that the taxing authority would examine any aspect of the tax position. For effectively settled tax positions, the full amount of the tax benefit can be recognized. The guidance in FSP No. FIN 48-1 was effective upon initial adoption of FIN 48. FIN 48 was effective for fiscal years beginning after December 15, 2006. Upon adoption of this Interpretation on January 1, 2007, the Bancorp recognized an after-tax adjustment to beginning retained earnings of $2 million representing the cumulative effect of applying the provisions of this Interpretation.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this Statement on January 1, 2008

will not have a material effect 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 pension or other postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through other 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 SFAS 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.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This Statement permits an entity to choose to measure certain financial instruments and certain other items at fair value, on an instrument-by-instrument basis. Once an entity has elected to record eligible items at fair value, the decision is irrevocable and the entity should report unrealized gains and losses on items for which the fair value option has been elected in earnings. This Statement is effective for fiscal years beginning after November 15, 2007. At the effective date, an entity may elect the fair value option for eligible items that exist at that date with the effect of the first remeasurement to fair value reported as a cumulative-effect adjustment to the opening balance of retained earnings. On January 1, 2008, upon adoption of this Statement, the Bancorp will elect to prospectively measure at fair value, residential mortgage loans originated on or after January 1, 2008 that have a designation as held for sale.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations which replaces SFAS No. 141, Business Combinations . This Statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (formerly referred to as purchase method) be used for all business combinations and that an acquirer be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as of the date that the acquirer achieves control. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. This Statement requires the acquirer to recognize acquisition-related costs and restructuring costs separately from the business combination as period expense. This Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption on this statement will impact the accounting and reporting of acquisitions after January 1, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an Amendment to ARB No. 51. This Statement establishes new accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent be

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clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The Statement also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. In addition, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary shall be initially measured at fair value, with the gain or loss on the deconsolidation of the subsidiary measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. SFAS No. 160 also clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. The Statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The Bancorp is currently in the process of evaluating the impact of adopting this Statement on the Bancorp s Consolidated Financial Statements.

In June 2007, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. The Issue states that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested

equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. This Issue was effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The Bancorp will prospectively apply this Issue to applicable dividends declared on or after January 1, 2008.

In November 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109, Written Loan Commitments Recorded at Fair Value through Earnings. This SAB supersedes SAB No. 105, Application of Accounting Principles to Loan Commitments , and expresses the current view of the staff that, consistent with guidance in SFAS No. 156 and No. 159, the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. Additionally, this SAB expands the SAB No. 105 view that internally-developed intangible assets should not be recorded as part of the fair value for any written loan commitments that are accounted for at fair value through earnings. This SAB was effective for fiscal quarters beginning after December 15, 2007. The Bancorp will adopt SAB 109 for any loan commitments issued or modified on or after January 1, 2008.

2. BUSINESS COMBINATIONS

On November 2, 2007, the Bancorp acquired 100% of the outstanding stock in R-G Crown Bank, FSB from R&G Financial Corporation. Crown operated 30 branches in Florida and three in Augusta, Georgia. The acquisition strengthened the Bancorp s presence in the Greater Orlando and Tampa Bay markets and also expanded its footprint into the Jacksonville and Augusta, Georgia markets.

Under the terms of the transaction, the Bancorp paid $259 million to R&G Financial and assumed $50 million of trust preferred securities. Additionally, Fifth Third Financial paid approximately $16 million to R-G Crown Real Estate, LLC to acquire land leased by Crown for certain branches. The assets and liabilities of Crown were recorded on the Bancorp s Consolidated Balance Sheets at their respective fair values as of the closing date. The results of Crown s operations were included in the Bancorp s Consolidated Statements of Income from the date of acquisition. In addition, the Bancorp realized charges against its earnings for Crown acquisition-related expenses of $7 million in 2007. The acquisition-related expenses consisted primarily of marketing, consulting, travel, and other costs associated with system conversions.

The transaction resulted in total intangible assets of $297 million based upon the purchase price, the fair values of the acquired assets and assumed liabilities and applicable purchase accounting adjustments. Of this total intangibles amount, $19 million was allocated to core deposit intangibles and the remaining $278 million was recorded as goodwill.

On August 16 2007, the Bancorp and First Charter Corporation, a full service financial institution which operates 57 branches in North Carolina and two in suburban Atlanta, announced that they entered into a definitive agreement under which the Bancorp will acquire 100% of the outstanding stock in First Charter. Under the definitive agreement, the Bancorp will pay $31.00 per First Charter share, or approximately $1.09 billion. Consideration will be paid in the form of 70% Fifth Third Bancorp common stock and 30% cash. The Bancorp is currently planning to close this transaction in the second quarter of 2008, subject to receipt of regulatory approval from the Federal Reserve.

On January 1, 2005, the Bancorp acquired in a merger 100% of the outstanding stock of First National Bankshares,

Inc. (First National), a bank holding company headquartered in Naples, Florida. First National operated 77 full-service banking centers located primarily in Orlando, Tampa, Sarasota, Naples and Fort Myers. The acquisition of First National allowed the Bancorp to increase its presence in the rapidly expanding Florida market.

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

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

The transaction resulted in total intangible assets of $1.3 billion based upon the purchase price, the fair values of the acquired assets and assumed liabilities and applicable purchase accounting adjustments. Of this total intangibles amount, $85 million was allocated to core deposit intangibles, $7 million was allocated to customer lists and $13 million was allocated to noncompete agreements. The remaining $1.2 billion was recorded as goodwill.

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

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3. SECURITIES

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

	2007				2006			
($ in millions)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale and other:								
U.S. Treasury and Government agencies	**$3**	**-**	**-**	**3**	1,396	-	-	1,396
U.S. Government sponsored agencies	**160**	**1**	**(1)**	**160**	100	-	(5)	95
Obligations of states and political subdivisions	**490**	**6**	**-**	**496**	603	11	-	614
Agency mortgage-backed securities	**8,738**	**24**	**(153)**	**8,609**	7,999	10	(193)	7,816
Other bonds, notes and debentures	**385**	**1**	**(10)**	**376**	172	1	(2)	171
Other securities*(a)*	**1,045**	**7**	**(19)**	**1,033**	966	3	(8)	961
Total	**$10,821**	**39**	**(183)**	**10,677**	11,236	25	(208)	11,053
Held-to-maturity:								
Obligations of states and political subdivisions	**$351**	**-**	**-**	**351**	345	-	-	345
Other debt securities	**4**	**-**	**-**	**4**	11	-	-	11
Total	**$355**	**-**	**-**	**355**	356	-	-	356

(a) Other securities consist of FHLB and Federal Reserve Bank restricted stock holdings of $523 million and $199 million at December 31, 2007, respectively, and $527 million and $187 million at December 31, 2006, respectively, that are carried at cost, FHLMC preferred stock holdings, certain mutual fund holdings and equity security holdings.

The amortized cost and approximate fair value of securities at December 31, 2007, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities when there exists a right to call or prepay obligations with or without call or prepayment penalties. In

2007, 2006, and 2005, gross realized securities gains were $28 million, $48 million, and $46 million, respectively, while gross realized securities losses were $1 million, $408 million, and $7 million, respectively.

	Available-for-Sale & Other		**Held-to-Maturity**	
($ in millions)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Debt securities:				
Under 1 year	$120	120	3	3
1-5 years	323	326	63	63
5-10 years	591	591	259	259
Over 10 years	8,742	8,607	30	30
Other securities	1,045	1,033	-	-
Total	$10,821	10,677	355	355

The following table provides the fair value and gross unrealized loss, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, as of December 31, 2007 and 2006:

($ in millions)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
2007						
U.S. Treasury and Government agencies	**$1**	**-**	**1**	**-**	**2**	**-**
U.S. Government sponsored agencies	**99**	**(1)**	**-**	**-**	**99**	**(1)**
Obligations of states and political subdivisions	**6**	**-**	**1**	**-**	**7**	**-**
Agency mortgage-backed securities	**2,279**	**(25)**	**3,730**	**(128)**	**6,009**	**(153)**
Other bonds, notes and debentures	**279**	**(9)**	**6**	**(1)**	**285**	**(10)**
Other securities	**57**	**(7)**	**27**	**(12)**	**84**	**(19)**
Total	**$2,721**	**(42)**	**3,765**	**(141)**	**6,486**	**(183)**
2006						
U.S. Treasury and Government agencies	$747	-	1	-	748	-
U.S. Government sponsored agencies	-	-	95	(5)	95	(5)
Obligations of states and political subdivisions	3	-	4	-	7	-
Agency mortgage-backed securities	853	(3)	5,383	(190)	6,236	(193)
Other bonds, notes and debentures	10	-	119	(2)	129	(2)
Other securities	8	(2)	41	(6)	49	(8)
Total	$1,621	(5)	5,643	(203)	7,264	(208)

The Bancorp completed balance sheet actions during the fourth quarter of 2006, which included the sale of $11.3 billion in available-for-sale securities with a weighted-average yield of 4.30% in addition to the reinvestment of approximately $2.8 billion in available-for-sale securities that are more efficient when used as collateral for pledging purposes. 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 was 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.

At December 31, 2007, 85% of the unrealized losses in the available-for-sale securities portfolio were comprised of debt securities issued by the U.S. Government sponsored agencies and agency mortgage-backed securities. The Bancorp believes the price

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movements in these securities are dependent upon movements in market interest rates. At December 31, 2007, four percent of unrealized losses in the available-for-sale securities portfolio were represented by non-rated securities.

At December 31, 2007 and 2006, securities with a fair value of $8.8 billion and $7.7 billion, respectively, were

pledged to secure borrowings, public deposits, trust funds and for other purposes as required or permitted by law.

Unrealized gains and losses on trading securities held at December 31, 2007 and 2006 were not material to the Consolidated Financial Statements.

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

A summary of the total loans and leases classified by primary purpose as of December 31:

($ in millions)	**2007**	2006
Loans and leases held for sale:		
Commercial loans	**$1,266**	-
Commercial mortgage loans	**105**	-
Residential mortgage loans	**893**	1,075
Home equity	**-**	1
Automobile loans	**1,982**	-
Other consumer loans and leases	**83**	74
Total loans and leases held for sale	**$4,329**	1,150
Portfolio loans and leases (*a*):		
Commercial loans	**$24,813**	20,831
Commercial mortgage loans	**11,862**	10,405
Commercial construction loans	**5,561**	6,168
Commercial leases	**3,737**	3,841
Total commercial loans and leases	**45,973**	41,245
Residential mortgage loans	**10,540**	8,830
Home equity	**11,874**	12,153
Automobile loans	**9,201**	10,028
Credit card	**1,591**	1,004
Other consumer loans and leases	**1,074**	1,093
Total consumer loans and leases	**34,280**	33,108
Total portfolio loans and leases	**$80,253**	74,353

(a) At December 31, 2007 and 2006, deposit overdrafts of $78 million and $43 million, respectively, were included in portfolio loans.

Total portfolio loans and leases were recorded net of unearned income, unamortized premiums and discounts, deferred loan fees and costs, and fair value adjustments associated with acquired loans of $1.3 billion and $876 million as of December 31, 2007 and 2006, respectively. The following is a summary of the gross investment in lease financing at December 31:

($ in millions)	**2007**	2006
Direct financing leases	**$3,407**	3,640
Leveraged leases	**2,452**	2,520

Total	**$5,859**	6,160

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

($ in millions)	**2007**	2006
Rentals receivable, net of principal and interest on nonrecourse debt	**$4,438**	4,479
Estimated residual value of leased assets	**1,397**	1,652
Initial direct cost, net of amortization	**24**	29
Gross investment in lease financing	**5,859**	6,160
Unearned income	**(1,325)**	(1,245)
Net investment in lease financing	**$4,534**	4,915

At December 31, 2007, the minimum future lease payments receivable for each of the years 2008 through 2012 were $1.1 billion, $1.0 billion, $.9 billion, $.6 billion and $.5 billion, respectively.

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

($ in millions)	**2007**	2006	2005
Balance at January 1	**$771**	744	713
Losses charged off	**(544)**	(408)	(373)
Recoveries of losses previously charged off	**82**	92	74
Provision for loan and lease losses	**628**	343	330
Balance at December 31	**$937**	771	744

As of December 31, 2007, impaired loans under SFAS No. 114 (not including loans acquired and accounted for under Statement of Position 03-3) with a valuation allowance totaled $306 million and impaired loans without a valuation allowance totaled $188 million. The total valuation allowance on the impaired loans at December 31, 2007 was $118 million. As of December 31, 2006, impaired loans with a valuation allowance totaled $193 million and impaired loans without a valuation allowance totaled $100 million. The total valuation allowance on the impaired loans at December 31, 2006 was $59 million. Average impaired loans, net of valuation allowances, were $280 million in 2007, $209 million in 2006 and $169 million in 2005. Cash basis interest income recognized on those loans during each of the years was immaterial.

At December 31, 2007 and 2006, total nonperforming assets were $1.1 billion and $455 million, respectively, and total loans and leases 90 days past due were $491 million and $210 million, respectively.

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5. LOANS ACQUIRED IN A TRANSFER

In 2007, the Bancorp acquired certain loans, primarily related to the Crown acquisition, for which there was evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. These loans were evaluated either individually or segregated into pools based on common risk characteristics and accounted for under Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3). SOP 03-3 requires acquired loans within its scope to be recorded at fair value and prohibits carrying over valuation allowances when applying purchase accounting. Loans carried at fair value, mortgage loans held for sale and loans under revolving credit agreements are excluded from the scope of SOP 03-3. Prepayment assumptions were applied to contractually required payments at acquisition of each loan.

As of December 31, 2007, the outstanding balance and carrying amount of those loans accounted for under SOP 03-3 were as follows:

($ in millions)	**2007**
Commercial	**$94**
Consumer	**135**
Outstanding balance	**$229**
Carrying amount	**$101**

At the acquisition date, the Bancorp determines the excess of the loan s contractually required payments over all cash flows expected to be collected as an amount that should not be accreted into interest income (nonaccretable difference). The remaining amount representing the difference in the expected cash flows of acquired loans and the basis in acquired loans is accreted into interest income over the remaining life of the loan or pool of loans. A summary of activity is provided below.

($ in millions)	Accretable Yield
Balance as of December 31, 2006	$ -
Additions	8
Accretion	(2)
Reclassifications from (to) nonaccretable yield	-
Balance as of December 31, 2007	$ 6

Loans acquired during 2007, for which it was probable at acquisition that all contractually required payments would not be collected, are summarized below. No such loans were acquired in 2006.

($ in millions)	**2007**
Contractually required payments receivable at acquisition:	
Commercial	**$99**
Consumer	**136**
Total	**$235**
Cash flows expected to be collected at acquisition	**$113**

Fair value of acquired loans at acquisition	**105**

6. BANK PREMISES AND EQUIPMENT

A summary of bank premises and equipment at December 31:

($ in millions)	Estimated Useful Life	**2007**	2006
Land and improvements		**$620**	487
Buildings	10 to 50 yrs.	**1,383**	1,218
Equipment	3 to 20 yrs.	**1,210**	1,121
Leasehold improvements	3 to 40 yrs.	**320**	270
Construction in progress		**113**	137
Accumulated depreciation and amortization		**(1,423)**	(1,293)
Total		**$2,223**	1,940

Depreciation and amortization expense related to bank premises and equipment was $205 million in 2007, $187 million in 2006 and $161 million in 2005.

Occupancy expense for cancelable and noncancelable leases was $85 million for 2007, $78 million for 2006 and $68 million for 2005. Occupancy expense has been reduced by rental income from leased premises of $12 million in 2007, 2006 and 2005.

The Bancorp s subsidiaries have entered into a number of noncancelable lease agreements with respect to bank premises and equipment. The minimum annual rental commitments under noncancelable lease agreements for land and buildings at December 31, 2007, exclusive of income taxes and other charges, are $78 million in 2008, $74 million in 2009, $68 million in 2010, $62 million in 2011, $58 million in 2012 and $394 million in 2013 and subsequent years.

7. GOODWILL

Changes in the net carrying amount of goodwill by reporting segment for the years ended December 31, 2007 and 2006 were as follows:

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	Total
Balance as of December 31, 2005	**$871**	**798**	182	127	191	2,169
Acquisition activity	**-**	**(1)**	-	-	14	13
Reclassification	**-**	**-**	-	11	-	11
Balance as of December 31, 2006	**871**	**797**	182	138	205	2,193
Acquisition activity	**124**	**153**	-	-	-	277
Balance as of December 31, 2007	**$995**	**950**	182	138	205	2,470

The Bancorp completed its most recent annual goodwill impairment test as of September 30, 2007 and determined that no impairment exists. In the table above, acquisition activity includes acquisitions in the respective period plus purchase accounting adjustments related to previous acquisitions.

During 2007, the Bancorp acquired Crown, which resulted in the recognition of $278 million in goodwill, of this amount

$267 million is expected to be deductible for tax purposes. The Branch Banking segment also included a $1 million reduction in goodwill from a previous acquisition. During 2006, the Bancorp acquired a credit card processing company. The acquisition resulted in the recognition of $14 million of goodwill and did not have a material impact on the financial results of the Bancorp. Additionally, during 2006, $11 million of goodwill was reclassified from other intangible assets.

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8. INTANGIBLE ASSETS

Intangible assets consist of servicing rights, core deposits, customer lists, non-competition agreements and cardholder relationships. Intangibles, excluding servicing rights, are amortized on either a straight-line or an accelerated basis over their estimated useful lives and have an estimated weighted-average life at December 31, 2007 of 3.3 years. For further

information on servicing rights, see Note 9. The Bancorp reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. The details of the Bancorp s intangible assets are shown in the following table.

($ in millions)	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Carrying Amount
As of December 31, 2007:				
Mortgage servicing rights	**$1,417**	**(755)**	**(49)**	**613**
Other consumer and commercial servicing rights	**24**	**(19)**	**-**	**5**
Core deposits	**430**	**(302)**	**-**	**128**
Other	**44**	**(25)**	**-**	**19**
Total intangible assets	**$1,915**	**(1,101)**	**(49)**	**765**
As of December 31, 2006:				
Mortgage servicing rights	$1,210	(664)	(27)	519
Other consumer and commercial servicing rights	23	(18)	-	5
Core deposits	417	(276)	-	141
Other	43	(18)	-	25
Total intangible assets	$1,693	(976)	(27)	690

As of December 31, 2007, all of the Bancorp s intangible assets were being amortized. Amortization expense recognized on intangible assets, including servicing rights, for 2007 and 2006 was $135 million and $116 million, respectively.

Estimated amortization expense, including servicing rights, is $145 million in 2008, $135 million in 2009, $114 million in 2010, $85 million in 2011 and $70 million in 2012.

9. SALES OF RECEIVABLES AND SERVICING RIGHTS

The Bancorp sold fixed and adjustable rate residential mortgage loans during 2007 and 2006. In those sales, the Bancorp obtained servicing responsibilities. The Bancorp receives annual servicing fees based on a percentage of the outstanding balance. The investors have no recourse to the Bancorp s other assets for failure of debtors to pay when due. The Bancorp identifies classes of servicing assets based on financial asset type and interest rates. For the years ended December 31, 2007 and 2006, the Bancorp recognized pretax gains of $67 million and $68 million, respectively, on the sales of $10.1 billion and $7.1 billion, respectively, of residential mortgage loans. Additionally, the Bancorp recognized $145 million and $121 million in servicing fees on residential mortgages for the years ended December 31, 2007 and 2006. The gains on sales of residential mortgages and servicing fees related to residential mortgages are included in mortgage banking net revenue in the Consolidated Statements of Income.

During 2007 and 2006, the Bancorp sold student loans and certain commercial loans and obtained servicing responsibilities. At December 31, 2007 and 2006, the value of the servicing asset and subordinated interest related to these sales was immaterial to the Bancorp s Consolidated Financial Statements.

Initial carrying values of servicing rights recognized during 2007 and 2006 were $205 million and $135 million, respectively. As of December 31, 2007 and 2006, the key economic assumptions used in measuring the servicing rights were as follows:

		2007				2006			
	Rate	**Weighted-Average Life (in years)**	**Prepayment Speed Assumption**	**Discount Rate**	**Weighted-Average Default Rate**	Weighted-Average Life (in years)	Prepayment Speed Assumption	Discount Rate	Weighted-Average Default Rate
Residential mortgage loans:									
Servicing assets	Fixed	**6.4**	**12.9%**	**9.6%**	**N/A**	6.8	13.7%	10.4%	N/A
Servicing assets	Adjustable	**3.4**	**29.4**	**12.9**	**N/A**	2.7	38.6	11.7	N/A

Based on historical credit experience, expected credit losses for residential mortgage loan servicing assets have been deemed immaterial. At December 31, 2007 and 2006, the Bancorp serviced $34.5 billion and $28.7 billion of residential mortgage loans for other investors.

The value of servicing assets is subject to credit, prepayment and interest rate risks on the sold financial assets. At December 31, 2007, the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

				Prepayment Speed Assumption			**Residual Servicing Cash Flows**			**Weighted-Average Default**		
					Impact of Adverse Change on Fair Value			**Impact of Adverse Change on Fair Value**			**Impact of Adverse Change on Fair Value**	
($ in millions)	**Rate**	**Fair Value**	**Weighted-Average Life (in years)**	**Rate**	**20%**	**10%**	**Discount Rate**	**10%**	**20%**	**Rate**	**10%**	**20%**
Residential mortgage loans:												
Servicing assets	Fixed	$565	5.9	12.1%	$26	$49	9.7%	$20	$39	-%	$-	$-
Servicing assets	Adjustable	50	3.1	26.5	3	7	12.4	2	3	-	-	-

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions typically cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also the effect of a variation in a particular assumption on the fair

value of the servicing rights is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

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The following table reflects changes in the servicing asset related to residential mortgage loans for the years ended December 31:

($ in millions)	**2007**	2006
Carrying amount as of the beginning of period	**$ 546**	479
Servicing obligations that result from transfer of residential mortgage loans	**207**	135
Amortization	**(91)**	(68)
Carrying amount before valuation allowance	**$ 662**	546
Valuation allowance for servicing assets:		
Beginning balance	**(27)**	(46)
Servicing valuation impairment recovery	**(22)**	19
Ending balance	**(49)**	(27)
Carrying amount as of the end of the period	**$ 613**	519

Temporary impairment or impairment recovery, effected through a change in the MSR valuation allowance, are reported as a component of mortgage banking net revenue in the Consolidated Statements of Income. The Bancorp maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in value of the MSR portfolio. This strategy includes the purchase of free-standing derivatives (principal-only swaps, swaptions and interest rate swaps) and various available-for-sale securities (primarily principal-only strips). The interest income, mark-to-market adjustments and gain or loss on sales activities associated with these portfolios are expected to economically hedge a portion of the change in value of the MSR portfolio caused by fluctuating discount rates, earnings rates and prepayment speeds.

The Bancorp recognized a net gain of $29 million during 2007 and a net loss of $6 million during 2006 related to changes in fair value and settlement of free-standing derivatives purchased to economically hedge the MSR portfolio. As of December 31, 2007 and 2006, other assets included free-standing derivative instruments related to the MSR portfolio with a fair value of $70 million and $14 million, respectively, and other liabilities included free-standing derivative instruments with a fair value of $16 million and $5 million, respectively. The outstanding notional amounts on the free-standing derivative instruments related to the MSR portfolio totaled $4.3 billion and $2.9 billion as of December 31, 2007 and 2006, respectively. For the years ended December 31, 2007

and 2006, the Bancorp recognized a gain of $6 million and $3 million, respectively, related to the sale of securities used to economically hedge MSRs. As of December 31, 2007 and 2006, the available-for-sale securities portfolio included $205 million and $176 million, respectively, of securities related to the non-qualifying hedging strategy.

The fair value of the servicing asset is based on the present value of expected future cash flows. The following table displays the beginning and ending fair value for the years ended December 31, 2007 and 2006:

($ in millions)	**2007**	2006
Fixed rate residential mortgage loans:		
Fair value at beginning of period	**$483**	413
Fair value at end of period	**565**	483
Adjustable rate residential mortgage loans:		
Fair value at beginning of period	**45**	45
Fair value at end of period	**50**	45

During 2007 and 2006, the Bancorp transferred, subject to credit recourse, certain primarily floating-rate, short-term, investment grade commercial loans to an unconsolidated QSPE that is wholly owned by an independent third-party. The Bancorp obtains servicing responsibilities and receives monthly servicing fees. As of December 31, 2007 and 2006, the Bancorp had $3.0 billion and $3.4 billion, respectively, of outstanding loans with a weighted-average remaining maturity of 2.3 years and 2.7 years, respectively. These loans may be transferred back to the Bancorp upon the occurrence of certain 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. These commercial loans are transferred at par with no gain or loss recognized. For the year ended December 31, 2007, the Bancorp collected $1.1 billion in cash proceeds from loan transfers and $30 million in fees from the QSPE. For the year ended December 31, 2006, the Bancorp collected $1.6 billion in cash proceeds from loan transfers and $30 million in fees from the QSPE.

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

($ in millions)	Balance 2007	Balance 2006	Balance of Loans 90 Days or More Past Due 2007	Balance of Loans 90 Days or More Past Due 2006	Net Credit Losses 2007	Net Credit Losses 2006
Commercial loans	**$29,052**	24,217	**43**	38	**109**	107
Commercial mortgage	**11,967**	10,405	**73**	17	**44**	24
Commercial construction loans	**5,561**	6,168	**67**	6	**29**	8
Commercial leases	**3,737**	3,841	**5**	2	**-**	(1)
Residential mortgage loans	**11,454**	9,942	**187**	69	**43**	22
Home equity loans	**12,162**	12,527	**74**	56	**99**	58
Automobile loans	**11,183**	10,174	**13**	8	**86**	58
Other consumer loans and leases	**2,749**	2,171	**32**	17	**54**	43
Total loans and leases managed and securitized *(a)*	**$87,865**	79,445	**494**	213	**464**	319
Less:						
Loans securitized	$310	556				
Loans in unconsolidated QSPE	2,973	3,386				
Loans held for sale	4,329	1,150				
Total portfolio loans and leases	**$80,253**	74,353				

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

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10. DERIVATIVES

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

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

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

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

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

Fair Value Hedges

The Bancorp may enter into interest rate swaps to convert its fixed-rate, long-term debt to floating-rate debt. Decisions to convert fixed-rate debt to floating are made primarily through

consideration of the asset/liability mix of the Bancorp, the desired asset/liability sensitivity and interest rate levels. For the years ended December 31, 2007 and 2006, certain interest rate swaps met the criteria required to qualify for the shortcut method of accounting. Based on this shortcut method of accounting treatment, no ineffectiveness is assumed. For interest rate swaps that do not meet the shortcut requirements, an assessment of hedge effectiveness was performed and such swaps were accounted for using the long-haul method. The long-haul method requires quarterly assessment of hedge effectiveness and measurement of ineffectiveness. For interest rate swaps accounted for as a fair value hedge using the long-haul method, ineffectiveness is the difference between the changes in the fair value of the interest rate swap and changes in fair value of the long-term debt attributable to the risk being hedged. The ineffectiveness on interest rate swaps hedging long-term debt is reported within interest expense in the Consolidated Statements of Income. For the years ended December 31, 2007 and 2006, the Bancorp recognized a net gain of $3 million and a net loss of less than $1 million, respectively, attributable to the ineffectiveness on interest rate swaps hedging long-term debt.

During 2006, the Bancorp terminated interest rate swaps designated as fair value hedges and, in accordance with SFAS No. 133, an amount equal to the cumulative fair value adjustment to the hedged items at the date of termination will be amortized as an adjustment to interest expense over the remaining term of the long-term debt. For the years ended December 31, 2007 and 2006, $11 million and $14 million in net deferred losses, net of tax, on the terminated fair value hedges were amortized into interest expense, respectively.

The Bancorp also enters into forward contracts to hedge its residential mortgage loans held for sale. The hedged mortgage loans held for sale are grouped into portfolios of loans with similar risk exposure. For the years ended December 31, 2007 and 2006, the Bancorp recognized net losses of $11 million and $5 million, respectively, attributable to the ineffectiveness of the hedging relationships related to residential mortgage loans held for sale. The ineffectiveness of these forward contracts is reported within noninterest income in the Bancorp s Consolidated Statements of Income. Those forward contracts that do not meet the criteria for fair value hedge accounting are accounted for as free-standing derivatives.

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

	2007		2006	
($ in millions)	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Included in other assets:				
Interest rate swaps related to debt	**$3,000**	**$67**	-	-
Forward contracts related to mortgage loans held for sale	**183**	**1**	653	4
Total included in other assets		**$68**		4
Included in other liabilities:				
Interest rate swaps related to debt	**$775**	**$21**	2,575	95
Forward contracts related to mortgage loans held for sale	**511**	**4**	419	2
Total included in other liabilities		**$25**		97

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Cash Flow Hedges

The Bancorp may enter into interest rate swaps to convert floating-rate assets and liabilities to fixed rates or to hedge certain forecasted transactions. The assets or liabilities are typically grouped and share the same risk exposure for which they are being hedged. The Bancorp may also enter into interest rate caps and floors to limit cash flow variability of floating rate assets and liabilities. As of December 31, 2007, all hedges designated as cash flow hedges are assessed for effectiveness using regression analysis. Ineffectiveness is generally measured as the amount by which the cumulative change in the fair value of the hedging instrument exceeds the present value of the cumulative change in the hedged item s expected cash flows. Ineffectiveness is reported within other noninterest income in the Consolidated Statements of Income. For the year ended December 31, 2007, the Bancorp recognized a net gain of less than $1 million attributable to cash flow hedge ineffectiveness. During the fourth quarter of 2007, the Bancorp terminated certain interest rate swaps designated as cash flow hedges. In conjunction with this termination, the Bancorp reclassified $22 million of losses into earnings as it was determined that the original forecasted transaction was no longer probable of occurring by the end of the originally specified time period or within the additional period of time as defined in SFAS

No. 133. These losses were reported within other noninterest income in the Consolidated Statements of Income.

As of December 31, 2007, $25 million of deferred gains on cash flow derivatives are recorded in accumulated other comprehensive income. Gains and losses on derivative contracts are reclassified from accumulated other comprehensive income to current period earnings when the forecasted transaction affects earnings and are included in the line item in which the hedged item's effect in earnings is recorded. As of December 31, 2007, $3 million in net deferred gains, net of tax, recorded in accumulated other comprehensive income are expected to be reclassified into earnings during the next twelve months.

In prior periods, the Bancorp terminated certain derivatives qualifying as cash flow hedges. The deferred gains or losses of those terminated instruments, net of tax, were included in accumulated other comprehensive income and amortized over the designated hedging periods. As of December 31, 2006, less than $1 million of deferred losses, net of tax, related to terminated cash flow hedges were recorded in accumulated other comprehensive income.

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

	2007		2006	
($ in millions)	**Notional Amount**	**Fair Value**	Notional Amount	Fair Value
Included in other assets:				
Interest rate floors related to commercial loans	**$1,500**	**$107**	-	-
Interest rate caps related to debt	**1,750**	**11**	-	-
Total included in other assets		**$118**		-
Included in other liabilities:				
Interest rate swaps related to consumer loans	**$1,000**	**$11**	-	-
Total included in other liabilities		**$11**		-

Free-Standing Derivative Instruments

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

In 2007, the Bancorp began offering its customers an equity-linked certificate of deposit that has a return linked to equity indices. Under SFAS No. 133, a certificate of deposit that pays interest based on changes on an equity index is a hybrid instrument that requires separation into a host contract (the certificate of deposit) and an embedded derivative contract (written equity call option). The Bancorp enters into an offsetting derivative contract to economically hedge the exposure taken through the issuance of equity-linked certificates of deposit. Both the embedded derivative and derivative contract entered into by the Bancorp are recorded as free-standing derivatives and recorded at fair value with offsetting gains and losses recognized in the Consolidated Statements of Income.

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

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

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activity are recorded as a component of mortgage banking net revenue in the Consolidated Statements of Income.

Additionally, the Bancorp occasionally may enter into free-standing derivative instruments (options, swaptions and interest rate swaps) in order to minimize significant fluctuations in earnings and cash flows caused by interest rate volatility. The gains and losses on these derivative contracts are recorded

within other noninterest income in the Consolidated Statements of Income.

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

($ in millions)	**2007**	2006	2005
Foreign exchange contracts	**$60**	53	52
Commodity contracts for customers	**2**	-	-
Interest rate lock commitments	**3**	(2)	1
Derivative instruments related to held for sale mortgages	**(14)**	7	(2)
Derivative instruments related to MSR portfolio	**23**	(9)	(23)
Derivative instruments related to foreign currency risk	**(19)**	3	-
Derivative instruments related to interest rate risk	**(1)**	(20)	3

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

	2007		2006	
($ in millions)	**Notional Amount**	**Fair Value**	Notional Amount	Fair Value
Included in other assets:				
Foreign exchange contracts for customers	**$7,132**	**$255**	5,064	164
Interest rate contracts for customers	**12,265**	**391**	8,174	110
Commodity contracts for customers	**167**	**28**	68	4
Derivative instruments related to equity-linked CD	**50**	**5**	-	-
Interest rate lock commitments	**656**	**3**	389	2
Derivative instruments related to held for sale mortgages	**229**	**1**	243	1
Derivative instruments related to MSR portfolio	**3,062**	**70**	2,335	14
Derivative instruments related to foreign currency risk	**-**	**-**	68	1
Derivative instruments related to interest rate risk	**1**	**-**	213	9
Total included in other assets		**$753**		305
Included in other liabilities:				
Foreign exchange contracts for customers	**$6,642**	**$234**	4,783	149
Interest rate contracts for customers	**12,430**	**391**	8,398	110
Commodity contracts for customers	**163**	**22**	62	4
Derivative instruments related to equity-linked CD	**50**	**5**	-	-
Interest rate lock commitments	**253**	**1**	750	3
Derivative instruments related to held for sale mortgages	**588**	**9**	103	1
Derivative instruments related to MSR portfolio	**1,280**	**16**	583	5
Derivative instruments related to foreign currency risk	**153**	**1**	-	-
Derivative instruments related to interest rate risk	**-**	**-**	7	-
Total included in other liabilities		**$679**		272

The following table summarizes the Bancorp s derivative instrument positions (excluding $39.8 billion in notional amount from the customer accommodation program) at December 31, 2007:

($ in millions)	Notional Amount	Weighted-Average Remaining Maturity (in months)	Average Receive Rate	Average Pay Rate
Interest rate swaps related to debt:				
Receive fixed/pay floating	$3,775	247	5.44%	5.35%
Mortgage lending commitments:				
Forward contracts on residential mortgage loans held for sale	1,415	1		
Forward contracts on commercial mortgage loans held for sale	96	98		
Mortgage servicing rights portfolio:				
Interest rate swaps Receive fixed/pay floating	1,012	88	5.44	5.09
Interest rate swaps Receive floating/pay fixed	1,280	47	4.95	4.72
Interest rate swaptions Pay fixed	1,375	2		5.48
Interest rate swaptions Receive fixed	675	9	4.31	
Aggregate balance sheet risk:				
Interest rate floors	1,500	64		
Interest rate caps	1,750	42		
Forward swaps related to consumer loans	1,000	23		
Foreign currency forward contracts	153	2		
Interest rate futures/forwards	1	14		
Total	$14,032			

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11. OTHER ASSETS

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

($ in millions)	**2007**	2006
Accounts receivable and drafts-in-process	**$ 1,892**	$ 1,446
Bank owned life insurance	**1,832**	1,949
Partnership investments	**958**	698
Derivative instruments	**939**	309
Accrued interest receivable	**564**	533
Other real estate owned	**159**	90
Prepaid pension and other expenses	**116**	119
Other	**563**	626
Total	**$ 7,023**	$ 5,770

The Bancorp purchases life insurance policies on the lives of certain directors, officers and employees and is the owner and beneficiary of the policies. The Bancorp invests in these policies, known as BOLI, to provide an efficient form of funding for long-term retirement and other employee benefits costs. Therefore, the Bancorp s BOLI policies are intended to be long-term investments to provide funding for future payment of long-term liabilities. The Bancorp records these BOLI policies within other assets in the Consolidated Balance Sheets at each policy s respective cash surrender value, with changes

recorded in noninterest income in the Consolidated Statements of Income.

Certain BOLI policies have a stable value agreement through either a large, well-rated bank or multi-national insurance carrier that provides limited cash surrender value protection from declines in the value of each policy s underlying investments. During the second half of 2007, the value of the investments underlying one of the Bancorp s BOLI policies declined significantly due to disruptions in the credit markets, widening of credit spreads between U.S. treasuries/swaps versus municipal bonds and bank trust preferred securities, and illiquidity in the asset-backed securities market. These factors caused the decline in the cash surrender value to exceed the protection provided by the stable value agreement.

As a result of exceeding the cash surrender value protection, the Bancorp recorded a $177 million charge during the fourth quarter of 2007 to reflect the cash surrender value related to this policy. The cash surrender value of this BOLI policy was $505 million at December 31, 2007. In 2008, the cash surrender value of this policy may increase or decrease further depending on market conditions related to the underlying investments.

At December 31, 2007, the cash surrender value protection had not been exceeded for any other BOLI policies.

12. SHORT-TERM BORROWINGS

Borrowings with original maturities of one year or less are classified as short term. Federal funds purchased are excess balances in reserve accounts held at Federal Reserve Banks that the Bancorp purchased from other member banks on an overnight basis. Bank notes are promissory notes issued by the

Bancorp s subsidiary banks. Other short-term borrowings include securities sold under repurchase agreements, FHLB advances and other borrowings with original maturities of one year or less. A summary of short-term borrowings and weighted-average rates follows:

	2007		2006		2005	
($ in millions)	**Amount**	**Rate**	Amount	Rate	Amount	Rate
As of December 31:						
Federal funds purchased	**$4,427**	**3.29%**	$1,421	5.26%	$5,323	3.93%
Other short-term borrowings	**4,747**	**3.90**	2,796	4.04	4,246	2.94
Average for the years ended December 31:						
Federal funds purchased	**$3,646**	**5.04%**	$4,148	5.02%	$4,225	3.26%
Short-term bank notes	**-**	**-**	-	-	248	2.60
Other short-term borrowings	**3,244**	**4.32**	4,522	4.28	5,038	2.74
Maximum month-end balance:						
Federal funds purchased	**$5,130**		$5,434		$6,378	
Short-term bank notes	**-**		-		775	
Other short-term borrowings	**5,381**		6,287		6,531	

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13. LONG-TERM DEBT

A summary of long-term borrowings at December 31:

($ in millions)	Maturity	Interest Rate	2007	2006
Parent Company				
Senior:				
Extendable notes	2008 -2009	4.91%	**$ 1,745**	1,748
Subordinated*(b)*:				
Fixed-rate notes	2017	5.45%	**510**	492
Fixed-rate notes	2018	4.50%	**485**	459
Floating-rate notes	2016	5.35%	**250**	250
Junior subordinated:				
Fixed-rate debentures *(b)*	2027	8.14%	**-**	217
Floating-rate notes *(a)*	2067	7.25%	**876**	-
Floating-rate notes *(a)*	2067	6.50%	**750**	-
Floating-rate notes *(a)*	2067	7.25%	**601**	-
Subsidiaries				
Senior:				
Fixed-rate bank notes	2008 -2019	2.87% -5.20%	**1,640**	2,006
Floating-rate bank notes	2013	5.02%	**500**	500
Extendable bank notes	2009 -2014	4.66% -5.05%	**1,200**	1,200
Subordinated*(b)*:				
Fixed-rate bank notes	2015	4.75%	**513**	492
Junior subordinated*(a)*:				
Floating-rate bank notes	2032 -2033	8.09%-8.78%	**52**	-
Floating-rate debentures	2027		**-**	103
Floating-rate debentures	2033 -2034	7.73% -7.78%	**67**	67
Mandatorily redeemable securities (a)	2031		**-**	647
Federal Home Loan Bank advances	2008 -2037	0% - 8.34%	**3,571**	4,258
Other	2008 -2032	Varies	**97**	119
Total			**$ 12,857**	12,558

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

The Bancorp pays down long-term debt in accordance with contractual terms over maturity periods summarized in the above table. Contractually obligated payments for long-term debt are due over the following periods as of December 31, 2007: $2.2 billion in 2008; $2.8 billion in 2009, $800 million in 2010, $2 million in 2011, $1.0 billion in 2012 and $6.0 billion after 2012.

Parent Company Long-Term Borrowings

The senior extendable notes currently pay interest at one-month LIBOR plus 1 bp and, in 2008, the notes can be extended an additional twelve months paying an interest rate of one-month LIBOR plus 2 bp. During 2007, $31 million of the notes were extended and the final maturity of these notes is 2009.

The Bancorp entered into interest rate swaps to convert the subordinated fixed-rate notes due in 2017 and 2018 to floating-rate. The rate paid on these swaps was 5.24% and 5.12%, respectively, at December 31, 2007. The subordinated floating-rate notes due in 2016 pay interest at three-month LIBOR plus 42 bp.

The 7.25% junior subordinated floating-rate notes due in 2067, with an outstanding debt balance of $876 million at December 31, 2007, pay a fixed rate of 7.25% until 2057, then convert to floating at three-month LIBOR plus 303 bp. The Bancorp entered into interest rate swaps to convert $700 million of the fixed-rate debt into floating. At December 31, 2007, the weighted-average rate paid on the swaps was 6.11%. The 6.50% junior subordinated floating-rate notes due in 2067 pay a fixed rate of 6.50% until 2017, then convert to floating at three-month LIBOR plus 137 bp until 2047. Thereafter, the notes pay a floating rate at one-month LIBOR plus 237 bp. The junior subordinated floating-rate notes due in 2067, with an outstanding debt balance of $601 million at December 31, 2007, pay a fixed rate of 7.25% until 2057, then convert to floating at three-month LIBOR plus 257 bp. The Bancorp entered into interest rate swaps to convert $500 million of the fixed-rate debt into floating. At December 31, 2007, the weighted-average rate paid on these swaps was 5.59%. The obligations were issued to Fifth Third Capital Trusts IV, V and VI, respectively. The Bancorp has fully

and unconditionally guaranteed all obligations under these trust preferred securities. In addition, the Bancorp entered into replacement capital covenants for the benefit of holders of long-term debt senior to the junior subordinated notes that limits, subject to certain restrictions, the Bancorp s ability to redeem the junior subordinated notes prior to their scheduled maturity.

During the first quarter of 2007, the Bancorp called the 8.14% junior subordinated debentures due in 2027 to Fifth Third Capital Trust I.

Subsidiary Long-Term Borrowings

The senior fixed-rate bank notes due from 2008 to 2019 are the obligations of a subsidiary bank. The maturities of the face value of the senior fixed-rate bank notes are as follows: $500 million in 2008, $73 million in 2009, $800 million in 2010 and $275 million in 2019. The Bancorp entered into interest rate swaps to convert $1.1 billion of the fixed-rate debt into floating rates. At December 31, 2007, the rates paid on these swaps ranged from 5.04% to 5.12%.

The senior floating-rate bank notes due in 2013 are the obligations of a subsidiary bank. The notes pay a floating rate at three-month LIBOR plus 11 bp.

The senior extendable notes consist of $800 million that currently pay interest at three-month LIBOR plus 4 bp and $400 million that pay at the Federal Funds open rate plus 12 bp. In 2008, the notes can be extended an additional six years paying an interest rate of one-month LIBOR plus 6 bp. During 2007, only $3 million of the notes were extended and the final maturity of these notes is 2014.

The subordinated fixed-rate bank notes due in 2015 are the obligations of a subsidiary bank. The Bancorp entered into interest rate swaps to convert the fixed-rate debt into floating rate. At December 31, 2007, the weighted-average rate paid on the swaps was 5.01%.

The junior subordinated floating-rate bank notes due in 2032 and 2033 were assumed by a Bancorp subsidiary as part of the acquisition of Crown in November 2007. Two of the notes pay floating at three-month LIBOR plus 310 and 325 bp. The third note pays floating at six-month LIBOR plus 370 bp.

The three-month LIBOR plus 290 bp and the three-month LIBOR plus 279 bp junior subordinated debentures due in 2033 and 2034, respectively, were assumed by a subsidiary of the

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Bancorp in connection with the acquisition of First National Bank. The obligations were issued to FNB Statutory Trusts I and II, respectively. The Bancorp has fully and unconditionally guaranteed all obligations under these trust preferred securities.

At December 31, 2007, FHLB advances have rates ranging from 0% to 8.34%, with interest payable monthly. The advances are secured by certain residential mortgage loans and securities totaling $8.6 billion. The advances mature as follows: $6 million in 2008, $1.5 billion in 2009, $1 million in 2010, $2 million in 2011 and $2.1 billion in 2012 and thereafter.

Medium-term senior notes and subordinated bank notes with maturities ranging from one year to 30 years can be issued by two subsidiary banks, of which $3.8 billion was outstanding

at December 31, 2007 with $16.2 billion available for future issuance. There were no other medium-term senior notes outstanding on either of the two subsidiary banks as of December 31, 2007.

During the first quarter of 2007, the Bancorp called the three-month LIBOR plus 80 bp junior subordinated debentures due in 2027 to Old Kent Capital Trust I. In addition, all of the issued and outstanding shares of preferred stock related to the mandatorily redeemable securities of Fifth Third Real Estate Investment Trust, Inc. were purchased by a wholly-owned subsidiary of the parent company during the third quarter of 2007.

14. COMMITMENTS, CONTINGENT LIABILITIES AND GUARANTEES

The Bancorp, in the normal course of business, enters into financial instruments and various agreements to meet the financing needs of its customers. The Bancorp also enters in certain transactions and agreements to manage its interest rate and prepayment risks, provide funding, equipment and locations for its operations and invest in its communities. These instruments and agreements involve, to varying degrees, elements of credit risk, counterparty risk and market risk in excess of the amounts recognized in the Bancorp s Consolidated Balance Sheets. Creditworthiness for all instruments and agreements is evaluated on a case-by-case basis in accordance with the Bancorp s credit policies. The Bancorp s significant commitments, contingent liabilities and guarantees in excess of the amounts recognized in the Consolidated Balance Sheets are summarized as follows:

Commitments

The Bancorp has certain commitments to make future payments under contracts. A summary of significant commitments at December 31:

($ in millions)	**2007**	2006
Commitments to extend credit	**$ 49,788**	42,085
Letters of credit (including standby letters of credit)	**8,522**	8,163
Customer derivatives in a loss position	**1,797**	4,546
Forward contracts to sell mortgage loans	**1,511**	1,418
Noncancelable lease obligations	**734**	695
Capital expenditures	**94**	126
Purchase obligations	**52**	24

Commitments to extend credit are agreements to lend, typically having fixed expiration dates or other termination clauses that may require payment of a fee. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements. The Bancorp is exposed to credit risk in the event of nonperformance for the amount of the contract. Fixed-rate commitments are also subject to market risk resulting from fluctuations in interest rates and the Bancorp s exposure is limited to the replacement value of those commitments. As of December 31, 2007 and 2006, the Bancorp had a reserve for unfunded commitments totaling $95 million and $76 million, respectively, included in other liabilities.

Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. At December 31, 2007, approximately $2.8 billion of standby letters of credit expire within one year, $5.3 billion expire between one to five years and $0.5 billion expire thereafter. At December 31, 2007, letters of credit of approximately $17 million were issued to commercial customers for a duration of one year or less to facilitate trade payments in domestic and foreign currency transactions. At December 31, 2007, the reserve related to these standby letters of credit was less than $1 million. Approximately 70% of the total standby letters of credit were secured as of December 31, 2007 and 2006. In the event of nonperformance by the customers, the Bancorp has

rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

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

Contingent Liabilities

As discussed in Note 10, the Bancorp s policy is to enter into derivative contracts to accommodate customers, to offset customer accommodations and to offset its own market risk incurred in the ordinary course of its business. Contingent obligations arising from market risk assumed in derivatives are offset with additional rights contained in other derivatives or contracts, such as loans or borrowings. A liability arises when a customer does not perform according to the derivative contract while the Bancorp must perform the offsetting agreement. Customer derivatives in a loss position with a corresponding offset are included in the table. The fair value of these contracts at December 31, 2007 and 2006 was $23 million and $69 million, respectively.

The Bancorp, through its electronic payment processing division, processes VISA® and MasterCard® merchant card transactions. Pursuant to VISA® and MasterCard® rules, the Bancorp assumes certain contingent liabilities relating to these transactions which typically arise from billing disputes between the merchant and cardholder that are ultimately resolved in the cardholder s favor. In such cases, these transactions are charged-back to the merchant and disputed amounts are refunded to the cardholder. If the Bancorp is unable to collect these amounts from the merchant, it will bear the loss for refunded amounts. The likelihood of incurring a contingent liability arising from chargebacks is relatively low, as most products or services are delivered when purchased and credits are issued on returned items. For the years ended December 31, 2007 and 2006, the Bancorp processed approximately $126 million and $120 million, respectively, of chargebacks presented by issuing banks, resulting in no material losses to the Bancorp. The Bancorp accrues for probable losses based on historical experience and did not carry a credit loss reserve related to such chargebacks at December 31, 2007 and 2006.

There are legal claims pending against the Bancorp and its subsidiaries that have arisen in the normal course of business. See Note 15 for additional information regarding these proceedings.

Guarantees

The Bancorp has performance obligations upon the occurrence of certain events under financial guarantees provided in certain contractual arrangements.

Through December 31, 2007 and 2006, the Bancorp had transferred, subject to credit recourse, certain primarily

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floating- rate, short-term investment grade commercial loans to an unconsolidated QSPE that is wholly owned by an independent third party. The outstanding balance of such loans at December 31, 2007 and 2006 was approximately $3.0 billion and $3.4 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 $3.0 billion and $3.4 billion, respectively, at December 31, 2007 and 2006. In addition, the Bancorp s agreement to provide liquidity support to the QSPE was $5.0 billion as of year end 2007 compared to $3.8 billion as of year end 2006. During the years ended December 31, 2007 and 2006, no amounts were drawn on the liquidity agreement. At December 31, 2007 and 2006, the Bancorp s loss reserve related to the liquidity support and credit enhancement provided to the QSPE was $18 million and $16 million, respectively, recorded in other liabilities on the Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of residential mortgage loans held in its loan portfolio.

At the end of the third quarter of 2007, the Bancorp began purchasing asset-backed commercial paper from the QSPE due to widening credit spreads in the commercial paper market. As of December 31, 2007, the amount of commercial paper held by the Bancorp was $83 million, representing three percent of the total commercial paper issued by the QSPE.

At December 31, 2007 and 2006, the Bancorp had provided credit recourse on residential mortgage loans sold to unrelated third parties of approximately $1.5 billion and $1.3 billion, respectively. 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 securing the loan. The Bancorp maintained an estimated credit loss reserve of approximately $17 million and $18 million relating to these residential mortgage loans sold at December 31, 2007 and 2006, respectively, recorded in other liabilities on the Consolidated Balance Sheets. To determine the credit loss reserve, the Bancorp used an approach that is consistent with its overall approach in estimating credit losses for various categories of residential mortgage loans held in its loan portfolio.

Fifth Third Securities, Inc (FTS), a subsidiary of the Bancorp, guarantees the collection of all margin account balances held by its brokerage clearing agent for the benefit of FTS customers. FTS is responsible for payment to its brokerage clearing agent for any loss, liability, damage, cost or expense incurred as a result of customers failing to comply with margin or margin maintenance calls on all margin accounts. The margin account balance held by the brokerage clearing agent as of December 31, 2007 was $48 million compared to $51 million as of December 31, 2006. In the event of any customer default, FTS has rights to the underlying collateral provided. Given the existence of the underlying collateral provided and negligible historical credit losses, the Bancorp does not maintain a loss reserve related to the margin accounts.

As of December 31, 2007 and 2006, the Bancorp had fully and unconditionally guaranteed certain long-term borrowing obligations issued by four wholly-owned issuing trust entities of $2.3 billion and $376 million, respectively. For further information on long-term borrowing obligations, see Note 13.

The Bancorp, as a member bank of Visa has certain indemnification obligations pursuant to Visa s certificate of incorporation and bylaws and in accordance with their membership agreements. In accordance with the Visa bylaws, the Bancorp may be required to indemnify Visa for the Bancorp s proportional share of losses based on its membership interests.

On October 3, 2007, Visa announced it had completed restructuring transactions in preparation for its initial public offering (IPO) expected to occur in the first quarter of 2008. As part of this restructuring, the Bancorp s indemnification obligation was modified to include only certain known litigation as of the date of restructuring. This modification triggered a requirement to fair value the indemnification obligation in accordance with FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Accordingly, the Bancorp recorded an indemnification liability under FIN 45 of $3 million. The Bancorp has also recorded $85 million for its share of litigation settled by Visa and $84 million for future settlements. These amounts are accrued under SFAS No. 5 Accounting for Contingencies. Visa has announced that they expect to fund an escrow account from a portion of the IPO proceeds in order to resolve their remaining litigation. In the event this occurs, a portion or all of the Bancorp s current liability at December 31, 2007 of $172 million would no longer be required.

15. LEGAL AND REGULATORY PROCEEDINGS

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

No. 13-2, which was effective as of January 1, 2007, a change or projected change in the timing of lessor cash flows related to income taxes generated by leveraged lease transactions, excluding interest and penalty assessments, requires a lessor to recalculate the rate of return and allocation of income to positive investment years from inception of the lease. Upon adoption of FSP FAS No. 13-2 on January 1, 2007, the Bancorp recorded a $96 million after-tax charge to retained earnings related to its portfolio of leveraged leases. The amount of this reduction will be recognized as income over the remaining term of the affected leases. During the first quarter of 2007, the Bancorp made deposits of $386 million with the IRS to mitigate the risk associated with tax years currently under audit. These deposits enable the Bancorp to stop the accrual of interest on any tax deficiency, to the extent of the deposit, if the Bancorp is not ultimately successful. Trial for this litigation is scheduled to begin March 31, 2008.

During April 2006, the Bancorp was added as a defendant in a consolidated antitrust class action lawsuit originally filed against Visa®, MasterCard® and several other major financial institutions

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in the United States District Court for the Eastern District of New York. The plaintiffs, merchants operating commercial businesses throughout the U.S. and trade associations, claim that the interchange fees charged by card-issuing banks are unreasonable and seek injunctive relief and unspecified damages. In addition to being a named defendant, the Bancorp is also subject to an indemnification obligation of Visa as discussed in Note 14. Accordingly, the Bancorp recorded a contingent liability included in the $172 million litigation reserve.

Several putative class action complaints have been filed against the Bancorp in various federal and state courts. The federal cases were consolidated by the Judicial Panel on Multidistrict Litigation and are now known as In Re TJX Security Breach Litigation. The state court actions have been removed to federal court and have been consolidated into that same case. The complaints relate to the alleged intrusion of The TJX Companies, Inc. s (TJX) computer system and the potential theft of their customers non-public information and alleged violations of the Gramm-Leach-Bliley Act. Some of the complaints were filed by consumers and seek unquantified damages on behalf of putative classes of persons who transacted business at any one of TJX s stores during the period of the alleged intrusion. Another was filed by financial institutions and seeks unquantified damages on behalf of other similarly situated entities that suffered losses in relation to the alleged intrusion. The U.S. District Court (Court) has granted the Bancorp s motion to dismiss certain of the claims, but additional claims remain pending. On November 29, 2007, the U.S. District Court, District of Massachusetts (District Court) issued an order denying Plaintiffs Motion for Class Certification in the consolidated cases brought by financial institutions (the Financial Institution Track). On December 18, 2007, the District Court entered its final order in the Financial Institution Track litigation that i) denied Plaintiffs Motion for Leave to Amend their Complaint, without prejudice; ii) dismissed the case for lack of subject matter jurisdiction; and iii) transferred the case from the United States District Court to the Massachusetts Superior Court in and for the County of Middlesex (Massachusetts State Court). On December 18, 2007, TJX Companies, Inc. filed a notice of Appeal to the United States Court of Appeals for the First Circuit (First Circuit) as to that portion of the Court s December 18 order transferring the case to Massachusetts State Court and an emergency motion to stay the Massachusetts State Court proceedings pending the appeal. On December 19, 2007, the First Circuit granted the request for stay until further order of the Court. On December 20, 2007, Fifth Third likewise filed a notice of appeal to the First

Circuit solely as to that portion of the District Court s December 18 Order transferring the case to the Massachusetts State Court. On December 21, 2007, Plaintiffs also filed a Notice of Appeal in the First Circuit as to the entirety of the District Court s December 18 Order and also as to all other prior adverse rulings including, without limitation, the District Court s denial of class certification and dismissal of various claims. In regard to the consumer track litigation, on January 9, 2008, the District Court issued an Order of Preliminary Approval of a proposed class action settlement funded solely by TJX and for the Publishing of Notice of a Final Fairness Hearing set for July 15, 2008.

In June 2007, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a suit in the United States District Court for the Southern District of Ohio against the Bancorp and its Ohio banking subsidiary. In the suit, Katz alleges that the Bancorp and its Ohio bank are infringing on Katz s patents for interactive call processing technology by offering certain automated telephone banking and other services. This lawsuit is one of many related patent infringement suits brought by Katz in various courts against numerous other defendants. Katz is seeking unspecified monetary damages and penalties as well as injunctive relief in the suit. Management believes there are substantial defenses to these claims and intends to defend them vigorously. The impact of the final disposition of this lawsuit cannot be assessed at this time.

In February 2008, a shareholder of the Bancorp filed a derivative suit in the Court of Common Pleas for Hamilton County, Ohio, against the members of the Bancorp s Board of Directors and, nominally, the Bancorp, alleging breach of fiduciary duty and waste of corporate assets, among other charges, in relation to the approval of the Bancorp s acquisition of First Charter Corporation. The suit seeks an injunction to halt proceeding with the acquisition of First Charter Corporation, an independent valuation of First Charter Corporation as to its worth, unspecified compensatory damages in favor of the Bancorp from the Directors as well as costs and attorneys fees to the plaintiff. The impact of the final disposition of this lawsuit cannot be assessed at this time.

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

16. RELATED PARTY TRANSACTIONS

At December 31, 2007 and 2006, certain directors, executive officers, principal holders of Bancorp common stock, associates of such persons, and affiliated companies of such persons were indebted, including undrawn commitments to lend, to the Bancorp s banking subsidiaries in the aggregate amount, net of participations, of $348 million and $271 million, respectively. As of December 31, 2007 and 2006, the outstanding balance on loans to related parties, net of participations and undrawn commitments, was $132 million and $76 million, respectively.

Commitments to lend to related parties as of December 31, 2007 and 2006, net of participations, were comprised of $340 million and $260 million, respectively, to directors and $8 million and $11 million at December 31, 2007 and 2006 to executive officers. The commitments are in the form of loans and guarantees for various business and personal interests. This indebtedness was incurred in the ordinary course of business on substantially the same terms,

including interest rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties. This indebtedness does not involve more than the normal risk of repayment or present other unfavorable features.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

The Bancorp has elected to present the disclosures required by SFAS No. 130, Reporting of Comprehensive Income, in the Consolidated Statements of Changes in Shareholders Equity and in the following table. Disclosure of the reclassification

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

	Total Other Comprehensive Income			Total Accumulated Other Comprehensive Income		
($ in millions)	Pretax Activity	Tax Effect	Net Activity	Beginning Balance	Net Activity	Ending Balance
2007						
Gains on available-for-sale securities	**$60**	**(23)**	**37**			
Reclassification adjustment for net gains recognized in net income	**(21)**	**9**	**(12)**			
Unrecognized gains (losses) on available-for-sale securities	**39**	**(14)**	**25**	**(119)**	**25**	**(94)**
Gains on cash flow hedge derivatives	**42**	**(15)**	**27**			
Reclassification adjustment for net gains on cash flow hedge derivatives recognized in net income	**(1)**	**-**	**(1)**			
Unrecognized gains (losses) on cash flow hedge derivatives	**41**	**(15)**	**26**	**(1)**	**26**	**25**
Defined benefit plans:						
Net prior service cost	**-**	**-**	**-**			
Net actuarial loss	**3**	**(1)**	**2**			
Total pension and other postretirement obligations	**3**	**(1)**	**2**	**(59)**	**2**	**(57)**
Total	**$83**	**(30)**	**53**	**(179)**	**53**	**(126)**
2006						
Gains on available-for-sale securities	$61	(20)	41			
Reclassification adjustment for net losses recognized in net income	364	(129)	235			
Unrecognized gains (losses) on available-for-sale securities	425	(149)	276	(395)	276	(119)
Reclassification adjustment for cash flow hedge derivative net losses recognized in net income	20	(8)	12			
Unrecognized gains (losses) on cash flow hedge derivatives	20	(8)	12	(13)	12	(1)
Minimum pension liability *(a)*				(5)	5	-
Cumulative effect of change in accounting for pension and other postretirement obligations *(a)*				-	(59)	(59)
Total	$445	(157)	288	(413)	234	(179)
2005						
Losses on available-for-sale securities	$(455)	158	(297)			
Reclassification adjustment for net gains recognized in net income	(39)	13	(26)			
Unrecognized losses on available-for-sale securities	(494)	171	(323)	(72)	(323)	(395)
Gains on cash flow hedge derivatives	9	(3)	6			
Reclassification adjustment for net losses recognized in net income	21	(7)	14			
Unrecognized gains (losses) on cash flow hedge derivatives	30	(10)	20	(33)	20	(13)
Minimum pension liability	90	(31)	59	(64)	59	(5)
Total	$(374)	130	(244)	(169)	(244)	(413)

(a) Upon adoption of SFAS No. 158, the Bancorp measured its liability for its total pension and other postretirement obligations to be $59 million.

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18. COMMON STOCK AND TREASURY STOCK

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

	Common Stock		Treasury Stock	
($ and shares in millions)	Value	Shares	Value	Shares
Shares at December 31, 2004	$1,295	583	$1,414	26
Shares acquired for treasury	-	-	1,746	38
Stock-based awards exercised, including treasury shares issued	-	-	(206)	(4)
Restricted stock grants	-	-	(43)	(1)
Shares issued in business combinations	11	5	(1,413)	(26)
Retirement of shares	(11)	(5)	(219)	(5)
Shares at December 31, 2005	$1,295	583	$1,279	28
Shares acquired for treasury	-	-	82	2
Stock-based awards exercised, including treasury shares issued	-	-	(84)	(2)
Restricted stock grants	-	-	(45)	(1)
Shares at December 31, 2006	$1,295	583	$1,232	27
Shares acquired for treasury	-	-	1,084	27
Stock-based awards exercised, including treasury shares issued	-	-	(86)	(2)
Restricted stock grants	-	-	(59)	(1)
Employee stock ownership through benefit plans	-	-	38	1
Shares at December 31, 2007	$1,295	583	$2,209	52

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. On May 21, 2007, the Bancorp announced that its Board of Directors had authorized management to purchase an additional 30 million shares of the Bancorp s common stock through the open market or in any private transaction. During 2007, the Bancorp repurchased approximately 27 million shares of its common stock, five percent of total outstanding shares, in open market transactions for $1.1 billion. At December 31, 2007, approximately 19.2 million shares remain authorized for repurchase.

During 2006, the Bancorp repurchased approximately 2 million shares of its common stock, less than one percent of total outstanding shares, in open market transactions for $82 million.

On January 10, 2005, the Bancorp executed an overnight share repurchase transaction with a counterparty for the acquisition of 35.5 million shares of its common stock at a purchase price of $45.95 per share, or $1.6 billion. Pursuant to the agreement with the counterparty, the counterparty purchased 35.5 million shares in the open market over a period of time that was completed during the third quarter of 2005. In

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

19. STOCK-BASED COMPENSATION

The Bancorp has historically emphasized employee stock ownership. Based on total stock-based awards outstanding and shares remaining for future grants under the Incentive Compensation Plan, the Bancorp s total overhang is approximately nine percent. The following table provides

detail of the number of shares to be issued upon exercise of outstanding stock-based awards and remaining shares available for future issuance under all of the Bancorp s equity compensation plans as of December 31, 2007:

Plan Category (shares in thousands)	Number of Shares to Be Issued Upon Exercise	Weighted-Average Exercise Price	Shares Available for Future Issuance
Equity compensation plans approved by shareholders:			7,321(b)
Stock options *(a)*	21,530	$50.61	(b)
Stock appreciation rights (SARs)	(c)	(c)	(b)
Restricted stock	3,395	(d)	(b)
Performance units	(e)	(d)	(b)
Performance-based restricted stock	124	(d)	(b)
Employee stock purchase plan			1,280(f)
Deferred stock compensation plans			275
Total shares	25,049		8,876

(a) Excludes 2.1 million outstanding options awarded under plans assumed by the Bancorp in connection with certain mergers and acquisitions. The Bancorp has not made any awards under these plans and will make no additional awards under these plans. The weighted-average exercise price of the outstanding options is $33.46 per share.

(b) Under the Incentive Compensation Plan, 20.0 million shares of stock were authorized for issuance as incentive and nonqualified stock options, SARs, restricted stock and restricted stock units, and performance shares and restricted stock awards.

(c) At December 31, 2007, approximately 17.5 million SARs were outstanding at a weighted-average grant price of $41.81. The number of shares to be issued upon exercise will be determined at vesting based on the difference between the grant price and the market price at the date of exercise.

(d) Not applicable.

(e) The number of shares to be issued is dependent upon the Bancorp achieving certain predefined performance targets and ranges from zero shares to approximately 290 thousand shares.

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

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Stock-based awards are eligible for issuance under the Bancorp s Incentive Compensation Plan to key employees and directors of the Bancorp and its subsidiaries. The Incentive Compensation Plan was approved by shareholders on March 23, 2004. The plan authorized the issuance of up to 20 million shares as equity compensation and provides for incentive and nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units, and performance share and restricted stock awards. All of the Bancorp s stock-based awards are to be settled with stock with the exception of a portion of the performance shares that are to be settled in cash. The Bancorp has historically used treasury stock to settle stock-based awards, when available. Stock options, issued at fair market value based on the closing price of the Bancorp s common stock on the date of grant, have up to ten-year terms and vest and become fully exercisable ratably over a three or four year period of continued employment. SARs, issued at fair market value based on the closing price of the Bancorp s common stock on the date of grant, have up to ten-year terms and vest and become exercisable either ratably or fully over a four year period of continued employment. The Bancorp does not grant discounted stock options or SARs, re-price previously granted stock options or SARs, or grant reload stock options. Restricted stock grants vest either after four years or ratably after three, four and five years of continued employment and include dividend and voting rights. Performance share and performance restricted stock awards have three-year cliff vesting terms with performance or market conditions as defined by the plan.

As discussed in Note 1, effective January 1, 2006, the Bancorp adopted SFAS No. 123(R) using the modified

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

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

	2007	2006	2005
Expected option life (in years)	**6**	6	6
Expected volatility	**22%**	23%	26%
Expected dividend yield	**4.4%**	4.1%	3.5%
Risk-free interest rate	**4.6%**	4.9%	4.3%

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

Stock-based compensation expense was $63 million, $76 million and $65 million for the years ended December 31, 2007, 2006 and 2005, respectively. The total related income tax benefit recognized was $22 million, $23 million and $16 million for the years ended December 31, 2007, 2006 and 2005, respectively. The following tables include a summary of stock-based compensation transactions for the previous three fiscal years:

	2007		2006		2005	
Stock Options (shares in thousands)	**Shares**	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1	**26,900**	**$47.58**	31,546	$46.49	36,162	$45.31
Granted (a)	**4**	**40.98**	-	-	2,515	22.90
Exercised	**(2,068)**	**26.91**	(1,931)	21.70	(4,830)	21.16
Forfeited or expired	**(1,191)**	**53.87**	(2,715)	53.24	(2,301)	54.30

Outstanding at December 31	**23,645**	**$49.07**	26,900	$47.58	31,546	$46.49
Exercisable at December 31	**23,628**	**$49.07**	25,978	$47.43	29,364	$46.01

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

The weighted-average grant-date fair value of options granted for the year ended 2007 was $7.39 per share. There were no stock options granted during 2006. The weighted-average grant-date fair value of options granted for the year ended 2005 was $20.54 per share.

The total intrinsic value of options exercised was $28 million, $32 million and $103 million in 2007, 2006 and 2005, respectively. Cash received from options exercised was $48 million, $35 million and $90 million in 2007, 2006 and 2005, respectively. The actual tax benefit realized from the exercised options was $7 million, $9 million and $28 million in 2007,

2006 and 2005, respectively. The total grant-date fair value of stock options that vested during 2007, 2006 and 2005 was $16 million, $25 million and $78 million, respectively. As of December 31, 2007, the aggregate intrinsic value of both outstanding options and exercisable options was $4 million.

At December 31, 2007, stock-based compensation expense related to non-vested stock options not yet recognized was immaterial. The expense is expected to be recognized over a remaining weighted-average period of approximately 0.3 years.

	2007		2006		2005	
		Weighted-Average		Weighted-Average		Weighted-Average
Stock Appreciation Rights (shares in thousands)	**Shares**	**Grant Price**	Shares	Grant Price	Shares	Grant Price
Outstanding at January 1	13,053	$43.43	7,541	$47.51	3,529	$54.37
Granted	6,613	38.45	6,949	39.18	4,892	42.82
Exercised	(56)	39.36	-	-	-	-
Forfeited or expired	(2,084)	41.36	(1,437)	44.31	(880)	48.88
Outstanding at December 31	17,526	$41.81	13,053	$43.43	7,541	$47.51
Exercisable at December 31	2,972	$41.45	989	$42.99	4	$54.37

The weighted-average grant-date fair value of SARs granted was $6.24, $7.35 and $9.31 per share for the years ended 2007, 2006 and 2005, respectively. The total grant-date fair value of SARs that vested during 2007, 2006 and 2005 was $19 million, $10 million and less than $1 million, respectively.

At December 31, 2007, there was $39 million of stock-based compensation expense related to non-vested SARs not yet recognized. The expense is expected to be recognized over a remaining weighted-average period of approximately 2.1 years.

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Restricted Stock (shares in thousands)	**2007** Shares	**2007** Weighted-Average Grant-Date Fair Value	2006 Shares	2006 Weighted-Average Grant-Date Fair Value	2005 Shares	2005 Weighted-Average Grant-Date Fair Value
Nonvested at January 1	**2,380**	**$40.28**	1,482	$46.16	596	$54.01
Granted	**1,622**	**38.19**	1,265	38.93	1,086	42.31
Vested	**(39)**	**48.28**	(24)	44.91	(29)	50.62
Forfeited	**(444)**	**40.95**	(343)	40.76	(171)	48.19
Nonvested at December 31	**3,519**	**$40.80**	2,380	$40.28	1,482	$46.16

The total grant-date fair value of restricted stock that vested during 2007, 2006 and 2005 was $1.9 million, $1.1 million and $1.2 million, respectively. At December 31, 2007, there was $42 million of stock-based compensation expense related to nonvested restricted stock not yet recognized. The

expense is expected to be recognized over a remaining weighted-average period of approximately 3.0 years.

The following table summarizes outstanding and exercisable stock options by exercise price at December 31, 2007:

Exercise Price per Share	Outstanding Stock Options: Number of Options at Year End (000 s)	Outstanding Stock Options: Weighted-Average Exercise Price	Outstanding Stock Options: Weighted-Average Remaining Contractual Life (in years)	Exercisable Stock Options: Number of Options at Year End (000 s)	Exercisable Stock Options: Weighted-Average Exercise Price	Exercisable Stock Options: Weighted-Average Remaining Contractual Life (in years)
Under $10.00	28	$7.46	3.17	28	$7.46	3.17
$10.01-$25.00	629	19.49	2.33	629	19.49	2.33
$25.01-$40.00	3,762	36.23	1.01	3,762	36.23	1.01
$40.01-$55.00	14,672	48.30	3.00	14,664	48.29	3.00
Over $55.00	4,554	66.52	4.29	4,545	66.54	4.29
All stock options	23,645	$49.07	2.91	23,628	$49.07	2.91

Approximately 132 thousand shares of performance-based awards were granted during 2007. These awards are payable in stock and cash contingent upon the Bancorp achieving certain predefined performance targets over the three-year measurement period. These performance targets are based on the Bancorp s performance relative to a defined peer group. The performance-based awards were granted at a weighted-average grant-date fair value of $39.89 per share.

Approximately 137 thousand performance-based restricted shares were granted during 2007. These awards are payable in stock contingent upon the Bancorp achieving certain predefined performance targets over the one-year measurement period. These performance targets are based on the Bancorp s performance relative to a defined peer group. If performance targets are met, the shares are vested over a three-year period. The performance-based restricted shares were granted at a weighted-average grant-date fair value of $38.27 per share. The performance condition related to the 2007 performance-based restricted shares was achieved.

At December 31, 2007, there were 8.1 million incentive options, 15.5 million non-qualified options, 17.5 million

SARs, 3.5 million restricted stock awards outstanding, .3 million shares reserved for performance unit awards, .1 million restricted performance stock awards and 7.3 million shares available for grant. Stock options, SARs and restricted stock outstanding represent approximately eight percent of the Bancorp s issued shares at December 31, 2007.

The Bancorp sponsors a Stock Purchase Plan that allows qualifying employees to purchase shares of the Bancorp s common stock with a 15% match. During the years ended December 31, 2007, 2006 and 2005, respectively, there were 333,039, 317,483, and 333,472 shares purchased by participants and the Bancorp recognized stock-based compensation expense of $2 million for each of the years ended 2007, 2006 and 2005.

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

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20. OTHER NONINTEREST INCOME AND OTHER NONINTEREST EXPENSE

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

($ in millions)	**2007**	2006	2005
Other noninterest income:			
Bank owned life insurance	**$(106)**	86	91
Cardholder fees	**56**	49	46
Consumer loan and lease fees	**46**	47	50
Insurance income	**32**	28	27
Operating lease income	**32**	26	55
Banking center fees	**29**	22	21
Gain on loan sales	**25**	17	24
Other	**39**	24	46
Total	**$153**	299	360
Other noninterest expense:			
Loan processing	**$119**	93	89
Marketing	**84**	78	76
Affordable housing investments	**57**	42	35
Travel	**54**	52	54
Postal and courier	**52**	49	50
Intangible amortization	**42**	45	46
Professional services fees	**35**	28	26
Supplies	**31**	28	35
Franchise and other taxes	**23**	30	37
Operating lease	**22**	18	40
Visa litigation expense	**172**	-	-
Debt and other financing agreement termination	**-**	49	-
Other	**298**	251	284
Total	**$989**	763	772

21. INCOME TAXES

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

($ in millions)	**2007**	2006	2005
Current income tax expense:			
U.S. income taxes	**$623**	457	654
State and local income taxes	**16**	7	21
Total current tax expense	**639**	464	675
Deferred income tax expense:			
U.S. income taxes	**(197)**	(24)	(7)
State and local income taxes	**19**	3	(9)
Total deferred tax expense	**(178)**	(21)	(16)
Applicable income tax expense	**$461**	$443	659

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

	2007	2006	2005
Statutory tax rate	**35.0%**	35.0	35.0
Increase (decrease) resulting from:			
State taxes, net of federal benefit	**1.5**	.4	.4
Tax-exempt income	**1.4**	(2.8)	(2.3)
Credits	**(5.0)**	(3.9)	(2.3)
Dividends on subsidiary preferred stock	**(2.5)**	(2.2)	(1.7)
Other, net	**(.4)**	.7	.8
Effective tax rate	**30.0%**	27.2	29.9

Tax-exempt income in the rate reconciliation above includes interest on municipal bonds, interest on tax-exempt lending, and income/charges on life insurance policies held by the Bancorp. The effective tax rate was adversely impacted in 2007 by a $177 million charge to certain life insurance policies held by the Bancorp. See Note 11 for a further discussion of those charges.

The statute of limitations for federal income tax returns remains open for tax years 2004 through 2007. In addition, limited federal statute extensions are in place for tax years 1997 through 2003, primarily for leasing uncertainties. With the exception of the state impact of the federal items discussed above as well as a few states with insignificant uncertain liabilities, the statutes of limitations for state income tax returns remain open for tax years 2004 through 2007.

As of January 1, 2007, the Bancorp adopted FIN 48. Upon adoption of this Interpretation on January 1, 2007, the Bancorp recognized an after-tax adjustment to beginning retained earnings of $2 million representing the cumulative

effect of applying the provisions of this Interpretation. At January 1, 2007 and at December 31, 2007, the Bancorp had unrecognized tax benefits of $446 million and $469 million, respectively. Those balances included $99 million and $100 million of tax positions that, if recognized, would impact the effective tax rate and $7 million and $6 million in tax positions that would impact goodwill. The remaining $340 million and $363 million is related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of the deductions. A significant portion of these tax positions relate to the leveraged lease litigation discussed below and in Note 15.

Any interest and penalties incurred in connection with income taxes are recorded as a component of tax expense. For the year ended December 31, 2007, the Bancorp accrued interest, net of the related tax benefit, of $2 million and, at December 31, 2007, had accrued interest liabilities of $67 million, net of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

related tax benefits. No liabilities were recorded for penalties.

Included in other assets at December 31, 2007 is a deposit of $386 million that the Bancorp made under Internal Revenue Code section 6603 for taxes associated with the leveraged lease portfolio.

Currently, the Internal Revenue Service is examining the Bancorp s income tax returns for the 2004 and 2005 years. While fieldwork is expected to be completed during 2008, it is unlikely that all issues will be resolved by year end.

The Bancorp has filed suit in the United States District Court for the Southern District of Ohio in a dispute with the Internal Revenue Service concerning the timing of deductions associated with certain leveraged lease transactions in its 1997 tax return. A jury trial is scheduled for March 2008. The Internal Revenue Service has also proposed adjustments to the leveraged lease transactions in subsequent tax return years. The proposed adjustments relate to the Bancorp s portfolio of

leveraged leases, with both domestic and foreign municipalities. The Bancorp expects a trial court decision during 2008. Notwithstanding the trial court decision, it is anticipated that the losing party will appeal the decision to the Sixth Circuit Court of Appeals. It is unlikely that the Appeals Court decision will be rendered during 2008. While the Bancorp is not expecting the litigation to be resolved during 2008, the trial court decision, together with rulings from other court jurisdictions where other leveraged lease cases are pending, may cause the Bancorp to reevaluate its position and associated unrecognized tax benefits during 2008. An estimate of the range of reasonably possible changes to the unrecognized tax benefits cannot be made at this time.

The following table provides a reconciliation of the beginning and ending amounts of the Bancorp s unrecognized tax benefits.

($ in millions)	**2007**
Unrecognized tax benefits at January 1	**$446**
Gross increases for tax positions taken during prior period	**-**
Gross decreases for tax positions taken during prior period	**-**
Gross increases for tax positions taken during current period	**47**
Settlements with taxing authorities	**(4)**
Lapse of applicable statute of limitations	**(20)**
Unrecognized tax benefits at December 31	**$469**

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

($ in millions)	**2007**	2006
Deferred tax assets:		
Allowance for credit losses	**$328**	270
Deferred compensation	**174**	160
Other comprehensive income	**68**	98
State net operating losses	**72**	112
Other	**221**	117
Total deferred tax assets	**863**	757
Deferred tax liabilities:		
Lease financing	**1,344**	1,750
State deferred taxes	**149**	189
Bank premises and equipment	**75**	70
Mortgage servicing rights	**160**	124
Other	**154**	173
Total deferred tax liabilities	**1,882**	2,306
Total net deferred tax liability	**$1,019**	1,549

Retained earnings at December 31, 2007 included $157 million in allocations of earnings for bad debt deductions of former thrift subsidiaries for which no income tax has been provided. Under current tax law, if certain of the Bancorp s

subsidiaries use these bad debt reserves for purposes other than to absorb bad debt losses, they will be subject to Federal income tax at the current corporate tax rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. RETIREMENT AND BENEFIT PLANS

The Bancorp implemented SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) at December 31, 2006. SFAS No. 158 requires the funded status of pension plans to be recorded in the balance sheet as an asset for plans with an overfunded status and a liability for plans with an underfunded status. The Bancorp recognized the overfunded and underfunded status of its pension plans as an asset and liability, respectively, in the Consolidated Balance Sheets as of December 31, 2007 and 2006.

Overfunded and underfunded amounts recognized in other assets and other liabilities in the Consolidated Balance Sheets for the defined benefit retirement plans as of December 31 consist of:

($ in millions)	**2007**	2006
Prepaid benefit cost	**$37**	39
Accrued benefit liability	**(36)**	(37)
Net overfunded status	**$1**	2

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

Plans With an Overfunded Status

($ in millions)	**2007**	2006
Fair value of plan assets at January 1	**$252**	238
Actual return on assets	**12**	26
Contributions	**-**	15
Settlement	**(20)**	(20)
Benefits paid	**(7)**	(7)
Fair value of plan assets at December 31	**$237**	252
Projected benefit obligation at January 1	**$213**	220
Service cost	**-**	1
Interest cost	**12**	12
Settlement	**(20)**	(20)
Actuarial loss	**2**	7
Benefits paid	**(7)**	(7)
Projected benefit obligation at December 31	**$200**	213
Overfunded projected benefit obligation recognized in the Consolidated Balance Sheets as an asset	**$37**	39

Plans With an Underfunded Status

($ in millions)	**2007**	2006
Fair value of plan assets at January 1	**$-**	-
Contributions	**3**	3
Benefits paid	**(3)**	(3)
Fair value of plan assets at December 31	**$-**	-
Projected benefit obligation at January 1	**$37**	38
Service cost	**-**	1
Interest cost	**2**	-
Actuarial loss	**-**	1
Benefits paid	**(3)**	(3)
Projected benefit obligation at December 31	**$36**	37
Unfunded projected benefit obligation recognized in the Consolidated Balance Sheets as a liability	**($36)**	(37)

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

($ in millions)	**2007**	2006	2005
Components of net periodic benefit cost:			
Service cost	**$-**	1	1
Interest cost	**14**	13	14
Expected return on assets	**(19)**	(19)	(18)
Amortization of actuarial loss	**7**	9	8
Amortization of net prior service cost	**1**	1	-
Settlement	**7**	8	9
Net periodic benefit cost	**$10**	13	14

($ in millions)	**2007**	2006
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net actuarial loss	**$10**	89
Net prior service cost	**-**	3
Amortization of actuarial loss	**(7)**	9
Amortization of prior service cost	**(1)**	1
Settlements	**(7)**	-
Total recognized in other comprehensive income	**(5)**	92
Total recognized in net periodic benefit cost and other comprehensive income *(a)*	**$5**	102

(a) Disclosure was not required for the year ended 2005 as SFAS No. 158 was not effective until December 31, 2006.

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2008 are $6 million and $1 million, respectively.

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

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

Weighted-average assumptions	**2007**	2006	2005
For measuring benefit obligations at year end:			
Discount rate	**6.26%**	5.80	5.375
Rate of compensation increase	**5.00**	5.00	5.00
Expected return on plan assets	**8.52**	8.50	8.45
For measuring net periodic benefit cost:			
Discount rate	**5.80**	5.375	5.65-5.85
Rate of compensation increase	**5.00**	5.00	5.00
Expected return on plan assets	**8.50**	8.45	8.00

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

Lowering both the expected rate of return on the plan and the discount rate by 0.25% would have increased the 2007 pension expense by approximately $1 million.

Plan assets consist primarily of common trust and mutual funds (equities and fixed income) and Bancorp common stock. As of December 31, 2007 and 2006, $153 million and $156 million, respectively, of plan assets were managed by Fifth Third Bank, a subsidiary of the Bancorp, through common trust and mutual funds and included $9 million and $15 million, respectively, of Bancorp common stock. Plan assets are not expected to be returned to the Bancorp during 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bancorp s policy for the investment of plan assets is to employ investment strategies that achieve a range of weighted-average target asset allocations relating to equity securities (including the Bancorp s common stock), fixed income securities and cash. The following table provides the Bancorp s targeted and actual weighted-average asset allocations by asset category for 2007 and 2006:

Weighted-average asset allocation	Targeted range	**2007**	2006
Equity securities		**71%**	69
Bancorp common stock		**5**	6
Total equity securities	70 80%	**76**	75
Total fixed income securities	20 25	**20**	20
Cash	0 5	**4**	5
Total		**100%**	100

The risk tolerance for the plan is determined by management to be moderate to aggressive, recognizing that higher returns involve some volatility and that periodic declines in the portfolio s value are tolerated in an effort to achieve real capital growth. Prohibited asset classes of the plan include precious metals, venture capital, short sales and leveraged transactions. Per the Employee Retirement Income Security Act (ERISA), the Bancorp s common stock cannot exceed ten percent of the fair market value of plan assets.

The accumulated benefit obligation for all defined benefit plans was $235 million and $249 million at December 31, 2007 and December 31, 2006, respectively. At December 31, 2007 and 2006, amounts relating to the Bancorp s defined benefit plans with benefit obligations exceeding assets were as follows:

($ in millions)	**2007**	2006
Projected benefit obligation	**$36**	37
Accumulated benefit obligation	**36**	38
Fair value of plan assets	**-**	-

Based on actuarial assumptions, the Bancorp does not expect to contribute to the plan in 2008. Estimated pension benefit payments, which reflect expected future service, are $20 million in 2008, $21 million in 2009, $20 million in 2010, $19 million in 2011 and $19 million in 2012. The total estimated payments for the years 2013 through 2017 is $83 million.

The Bancorp s profit sharing plan expense was $52 million for 2007, $60 million for 2006 and $62 million for 2005. Expenses recognized during the years ended December 31, 2007, 2006 and 2005 for matching contributions to the Bancorp s defined contribution savings plans were $37 million, $35 million and $33 million, respectively.

23. EARNINGS PER SHARE

The calculation of earnings per share and the reconciliation of earnings per share to earnings per diluted share for the years ended December 31:

	2007			2006			2005		
(in millions, except per share data)	**Income**	**Average Shares**	**Per Share Amount**	Income	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount

Earnings per share:									
Net income before cumulative effect	**$1,076**			$1,184			$1,549		
Net income available to common shareholders before cumulative effect *(a)*	**1,075**	**538**	**$2.00**	1,184	555	$2.13	1,548	554	$2.79
Cumulative effect of change in accounting principle, net of tax	**-**	**-**	**-**	4	-	.01	-	-	-
Net income available to common shareholders *(a)*	**$1,075**	**538**	**$2.00**	$1,188	555	$2.14	$1,548	554	$2.79
Earnings per diluted share:									
Net income available to common shareholders before cumulative effect	**$1,075**	**538**	**$2.00**	$1,184	555	$2.13	$1,548	554	$2.79
Effect of dilutive securities:									
Stock based awards		**2**	**(.01)**		2	(.01)		4	(.02)
Convertible preferred stock *(b)*	**-**	**-**	**-**	-	-	-	-	-	-
Income plus assumed conversions before cumulative effect	**1,076**	**540**	**$1.99**	1,184	557	$2.12	1,549	558	$2.77
Cumulative effect of change in accounting principle, net of tax	**-**	**-**	**-**	4	-	.01	-	-	-
Net income available to common shareholders plus assumed conversions	**$1,076**	**540**	**$1.99**	$1,188	557	$2.13	$1,549	558	$2.77

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

(b) The additive effect to income from dividends on convertible preferred stock is $.580 million and the average share dilutive effect from convertible preferred stock is .308 million shares for all periods presented.

During the first quarter of 2006, the Bancorp recognized a benefit for the cumulative effect of change in accounting principle of $4 million, net of $2 million of tax, related to the adoption of SFAS 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.

At December 31, 2007, 2006 and 2005, there were 36.2 million, 33.1 million and 28.1 million shares outstanding,

respectively, that were not included in the computation of net income per diluted share. The outstanding shares consist of options, stock appreciation rights and restricted stock that have not yet been exercised. These shares are excluded from the computation of net income per diluted shares because the exercise price of the shares was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2007		2006	
	Carrying		Carrying	
($ in millions)	**Amount**	**Fair Value**	Amount	Fair Value
Financial assets:				
Cash and due from banks	**$2,687**	**2,687**	2,737	2,737
Available-for-sale and other securities	**10,677**	**10,677**	11,053	11,053
Held-to-maturity securities	**355**	**355**	356	356
Trading securities	**171**	**171**	187	187
Other short-term investments	**593**	**593**	809	809
Loans held for sale	**4,329**	**4,371**	1,150	1,152
Portfolio loans and leases, net	**79,316**	**79,600**	73,582	73,660
Derivative assets	**939**	**939**	309	309
Financial liabilities:				
Deposits	**75,445**	**75,378**	69,380	69,371
Federal funds purchased	**4,427**	**4,427**	1,421	1,421
Other short-term borrowings	**4,747**	**4,747**	2,796	2,796
Long-term debt	**12,857**	**13,298**	12,558	12,762
Derivative liabilities	**715**	**715**	369	369
Short positions	**35**	**35**	29	29
Other financial instruments:				
Commitments to extend credit	**94**	**94**	75	75
Letters of credit	**26**	**26**	23	23

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

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

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

Available-for-sale, held-to-maturity, trading and other securities, including short positions: In general, fair values were based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans held for sale: The fair value of loans held for sale was estimated based on outstanding commitments from investors, observable market prices of similar instruments, or if a market

price is not available, a discounted cash flow calculation using appropriate market rates for similar instruments.

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

Derivative assets and derivative liabilities: Fair values were based on the estimated amount the Bancorp would receive or pay to terminate the derivative contracts, taking into account the current interest rates and the creditworthiness of the counterparties. The fair values represent an asset or liability at December 31, 2007 and 2006.

Deposits: Fair values for other time deposits and certificates of deposit $100,000 and over were estimated using a discounted cash flow calculation that applied prevailing LIBOR/Swap interest rates for the same maturities.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. CERTAIN REGULATORY REQUIREMENTS AND CAPITAL RATIOS

The principal source of income and funds for the Bancorp (parent company) are dividends from its subsidiaries. During 2007, the amount of dividends the bank subsidiaries could pay to the Bancorp without prior approval of regulatory agencies was limited to their 2007 eligible net profits, as defined, and the adjusted retained 2006 and 2005 net income of those subsidiaries.

The Bancorp s subsidiary banks must maintain cash reserve balances when total reservable deposit liabilities are greater than the regulatory exemption. These reserve requirements may be satisfied with vault cash and noninterest-bearing cash balances on reserve with a Federal Reserve Bank. In 2007 and 2006, the subsidiary banks were required to maintain average cash reserve balances of $330 million and $289 million, respectively.

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

Tier I capital consists principally of shareholders equity including Tier I qualifying subordinated debt and junior subordinated debt but excluding unrealized gains and losses on available-for-sale securities and unrecognized pension actuarial gains and losses and prior service cost, less goodwill and certain other intangibles. Tier II capital consists principally of perpetual and trust preferred stock that is not eligible to be included as Tier I capital, term subordinated debt, intermediate-term preferred stock and, subject to

limitations, general allowances for loan and lease losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics. Average assets for this purpose does not include goodwill and any other intangible assets and investments that the FRB determines should be deducted from Tier I capital.

Both the FRB and the Office of Comptroller of the Currency (OCC) have issued regulations regarding the capital adequacy of subsidiary banks. These requirements are substantially similar to those adopted by the FRB regarding bank holding companies, as described above. In addition, the federal banking agencies have issued substantially similar regulations to implement the system of prompt corrective action established by Section 38 of the Federal Deposit Insurance Act. Under the regulations, a bank generally shall be deemed to be well-capitalized if it has a Total risk-based capital ratio of 10% or more, a Tier I capital ratio of 6% or more, a Tier I leverage ratio of 5% or more and is not subject to any written capital order or directive. If an institution becomes undercapitalized, it would become subject to significant additional oversight, regulations and requirements as mandated by the Federal Deposit Insurance Act. The Bancorp and each of its subsidiary banks had Tier I, Total risk-based capital and Tier I leverage ratios above the well-capitalized levels at December 31, 2007 and 2006. As of December 31, 2007, the most recent notification from the FRB categorized the Bancorp and each of its subsidiary banks as well-capitalized under the regulatory framework for prompt corrective action. To continue to qualify for financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999, the Bancorp s subsidiary banks must, among other things, maintain well-capitalized capital ratios.

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

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

	2007	2006

($ in millions)	**Amount**	**Ratio**	Amount	Ratio
Total risk-based capital (to risk-weighted assets):				
Fifth Third Bancorp (Consolidated)	**$ 11,733**	**10.16%**	$ 11,385	11.07%
Fifth Third Bank (Ohio)	**6,058**	**10.39**	6,573	12.82
Fifth Third Bank (Michigan)	**5,787**	**10.13**	5,814	11.41
Fifth Third Bank, N.A.	**519**	**21.76**	216	11.78
Tier I capital (to risk-weighted assets):				
Fifth Third Bancorp (Consolidated)	**8,924**	**7.72**	8,625	8.39
Fifth Third Bank (Ohio)	**4,744**	**8.13**	5,336	10.41
Fifth Third Bank (Michigan)	**5,191**	**9.09**	5,341	10.48
Fifth Third Bank, N.A.	**503**	**21.07**	203	11.07
Tier I leverage (to average assets):				
Fifth Third Bancorp (Consolidated)	**8,924**	**8.50**	8,625	8.44
Fifth Third Bank (Ohio)	**4,744**	**8.11**	5,336	9.53
Fifth Third Bank (Michigan)	**5,191**	**10.55**	5,341	11.30
Fifth Third Bank, N.A.	**503**	**25.59**	203	12.52

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. PARENT COMPANY FINANCIAL STATEMENTS

($ in millions)

Condensed Statements of Income (Parent Company Only)

For the years ended December 31	**2007**	2006	2005
Income			
Dividends from subsidiaries	**$900**	605	1,270
Interest on loans to subsidiaries	**75**	46	32
Other	**9**	2	1
Total income	**984**	653	1,303
Expenses			
Interest	**162**	120	77
Other	**80**	22	23
Total expenses	**242**	142	100
Income Before Income Taxes and Change in Undistributed Earnings of Subsidiaries	**742**	511	1,203
Applicable income taxes	**(58)**	(35)	(25)
Income Before Change in Undistributed Earnings of Subsidiaries	**800**	546	1,228
Increase in undistributed earnings of subsidiaries	**276**	642	321
Net Income	**$1,076**	1,188	1,549

Condensed Balance Sheets (Parent Company Only)

As of December 31	**2007**	2006
Assets		
Cash	**$1,200**	909
Loans to subsidiaries	**1,201**	636
Investment in subsidiaries	**11,991**	11,735
Goodwill	**137**	137
Other assets	**188**	37
Total Assets	**$14,717**	13,454
Liabilities		
Commercial paper	**$4**	7
Accrued expenses and other liabilities	**320**	259
Long-term debt	**5,232**	3,166
Total Liabilities	**5,556**	3,432
Shareholders Equity	**9,161**	10,022
Total Liabilities and Shareholders Equity	**$14,717**	13,454

Condensed Statements of Cash Flows (Parent Company Only)

For the years ended December 31	**2007**	2006	2005
Operating Activities			
Net income	**$1,076**	1,188	1,549
Adjustments to reconcile net income to net cash provided by operating activities:			
(Benefit) provision for deferred income taxes	**(7)**	1	(1)
Increase in other assets	**(98)**	(1)	(4)
Increase (decrease) in accrued expenses and other liabilities	**132**	17	(29)
Increase in undistributed earnings of subsidiaries	**(276)**	(642)	(321)
Other, net	46	(14)	1
Net Cash Provided by Operating Activities	**873**	549	1,195
Investing Activities			
Capital contribution to subsidiaries	**-**	(25)	-
Decrease in held-to-maturity and available-for-sale securities	**6**	-	-
(Increase) decrease in loans to subsidiaries	**(565)**	(107)	1,811
Net Cash (Used in) Provided by Investing Activities	**(559)**	(132)	1,811
Financing Activities			
Increase (decrease) in other short-term borrowings	**13**	5	(26)
Repayment of long-term debt	**(209)**	(13)	-
Proceeds from issuance of long-term debt	**2,135**	748	-
Payment of cash dividends	**(898)**	(867)	(794)

Exercise of stock-based awards	**50**	43	96
Purchases of treasury stock	**(1,084)**	(82)	(1,649)
Other, net	**(30)**	(8)	-
Net Cash Used in Financing Activities	**(23)**	(174)	(2,373)
Increase in Cash	**291**	243	633
Cash at Beginning of Year	**909**	666	33
Cash at End of Year	**$1,200**	909	666

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. SEGMENTS

The Bancorp s principal activities include Commercial Banking, Branch Banking, Consumer Lending, Investment Advisors and Processing Solutions. Commercial Banking offers banking, cash management and financial services to large and middle-market businesses, government and professional customers. Branch Banking provides a full range of deposit and loans and lease products to individuals and small businesses through retail locations. Consumer Lending includes the Bancorp s mortgage, home equity and other indirect lending activities. Investment Advisors provides a full range of investment alternatives for individuals, companies and not-for-profit organizations. Processing Solutions provides electronic funds transfer, debit, credit and merchant transaction processing, operates the Jeanie® ATM network and provides other data processing services to affiliated and unaffiliated customers. The General Corporate and Other column includes the unallocated portion of the investment portfolio, certain non-deposit funding, unassigned equity and certain support activities and other items not attributed to the business segments.

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

The Bancorp manages interest rate risk centrally at the corporate level by employing a funds transfer pricing (FTP) methodology. This methodology insulates the business segments from interest rate volatility, enabling them to focus

on serving customers through loan originations and deposit taking. The FTP system assigns charge rates and credit rates to classes of assets and liabilities, respectively, based on expected duration and the Treasury swap curve. Matching duration, or the expected average 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 the widening spread between deposit costs and wholesale funding costs. However, the Bancorp s FTP system credits this benefit to deposit-providing businesses, such as Branch Banking and Investment Advisors, on a duration-adjusted basis. The net impact of the FTP methodology is captured in General Corporate and Other.

Management made several changes to the FTP methodology in 2007 to more appropriately calculate FTP charges and credits to each of the Bancorp s business segments. Changes to the FTP methodology were applied retroactively and included adding a liquidity premium to loans, deposits and certificates of deposit to properly reflect the Bancorp s marginal cost of longer term funding. In addition, an FTP charge on fixed assets based on the average 5 year Treasury curve was added to the new FTP methodology.

The business segments are charged provision expense based on the actual net charge-offs experienced by the loans owned by each segment. Provision expense attributable to loan growth and change in factors in the allowance for loan and lease losses are captured in General Corporate and Other. The financial results of the business segments include allocations for shared services and headquarters expenses. Even with these allocations, the financial results are not necessarily indicative of the business segments financial condition and results of operations as if they were to exist as independent entities. Additionally, the business segments form synergies by taking advantage of cross-sell opportunities and when funding operations by accessing the capital markets as a collective unit. Results of operations and average assets by segment for each of the three years ended December 31 are:

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	General Corporate	Eliminations	Total
2007								
Net interest income *(a)*	$1,310	1,465	404	154	(6)	(294)	-	3,033
Provision for loan and lease losses	127	162	148	13	11	167	-	628
Net interest income after provision for loan and lease losses	1,183	1,303	256	141	(17)	(461)	-	2,405
Noninterest income:								
Electronic payment processing	(6)	174	-	1	699	1	(43)*(b)*	826
Service charges on deposits	154	421	-	7	(1)	(2)	-	579
Investment advisory revenue	3	90	-	386	-	(5)	(92)*(c)*	382
Corporate banking revenue	341	13	-	10	3	-	-	367
Mortgage banking net revenue	-	7	122	2	-	2	-	133
Other noninterest income	66	74	69	2	41	(99)	-	153
Securities gains (losses), net	-	-	6	-	-	21	-	27
Total noninterest income	558	779	197	408	742	(82)	(135)	2,467
Noninterest expense:								
Salaries, wages and incentives	220	382	56	140	62	379	-	1,239
Employee benefits	44	101	28	27	13	65	-	278
Payment processing expense	-	6	-	-	237	1	-	244
Net occupancy expense	15	136	8	10	4	96	-	269
Technology and communications	4	14	2	2	31	116	-	169
Equipment expense	3	37	1	1	4	77	-	123
Other noninterest expense	507	447	158	215	137	(340)	(135)	989
Total noninterest expense	793	1,123	253	395	488	394	(135)	3,311
Income before income taxes	948	959	200	154	237	(937)	-	1,561
Applicable income taxes *(a)*	246	338	70	54	84	(307)	-	485
Net income	$702	621	130	100	153	(630)	-	1,076
Average assets	$38,796	45,054	23,728	5,923	1,068	(12,092)	-	102,477

(a) *Includes taxable-equivalent adjustments of $24 million.*
(b) *Electronic payment processing service revenues provided to the banking segments are eliminated in the Consolidated Statements of Income.*
(c) *Revenue sharing agreements between Investment Advisors and Branch Banking are eliminated in the Consolidated Statements of Income.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	General Corporate	Eliminations	Total
2006								
Net interest income *(a)*	$1,317	1,300	409	139	(3)	(263)	-	2,899
Provision for loan and lease losses	99	108	94	4	9	29	-	343
Net interest income after provision for loan and lease losses	1,218	1,192	315	135	(12)	(292)	-	2,556
Noninterest income:								
Electronic payment processing	(5)	159	-	1	601	(1)	(38)(b)	717
Service charges on deposits	146	365	-	7	(1)	-	-	517
Investment advisory revenue	3	87	-	367	-	(3)	(87)(c)	367
Corporate banking revenue	292	15	-	7	1	3	-	318
Mortgage banking net revenue	-	5	148	2	-	-	-	155
Other noninterest income	40	80	78	2	35	64	-	299
Securities gains (losses), net	-	-	-	-	(1)	(363)	-	(364)
Securities gains, net non qualifying hedges on mortgage servicing rights	-	-	3	-	-	-	-	3
Total noninterest income	476	711	229	386	635	(300)	(125)	2,012
Noninterest expense:								
Salaries, wages and incentives	200	357	66	143	57	351	-	1,174
Employee benefits	44	100	32	29	13	74	-	292
Payment processing expense	-	15	-	-	169	-	-	184
Net occupancy expense	14	121	8	10	3	89	-	245
Technology and communications	-	13	2	2	32	92	-	141
Equipment expense	2	32	1	1	4	76	-	116
Other noninterest expense	467	397	158	196	132	(462)	(125)	763
Total noninterest expense	727	1,035	267	381	410	220	(125)	2,915
Income before income taxes and cumulative effect	967	868	277	140	213	(812)	-	1,653
Applicable income taxes *(a)*	274	306	98	49	75	(333)	-	469
Income before cumulative effect	693	562	179	91	138	(479)	-	1,184
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	-	4	-	4
Net income	$693	562	179	91	138	(475)	-	1,188
Average assets	$35,134	43,428	22,154	5,500	586	(1,563)	-	105,238

(a) Includes taxable-equivalent adjustments of $26 million.
(b) Electronic payment processing service revenues provided to the banking segments are eliminated in the Consolidated Statements of Income.
(c) Revenue sharing agreements between Investment Advisors and Branch Banking are eliminated in the Consolidated Statements of Income.

($ in millions)	Commercial Banking	Branch Banking	Consumer Lending	Investment Advisors	Processing Solutions	General Corporate	Eliminations	Total
2005								
Net interest income *(a)*	$1,177	1,210	424	122	(9)	72	-	2,996
Provision for loan and lease losses	90	97	89	4	18	32	-	330
Net interest income after provision for loan and lease losses	1,087	1,113	335	118	(27)	40	-	2,666
Noninterest income:								
Electronic payment processing	-	143	-	1	517	(4)	(35)(b)	622
Service charges on deposits	149	368	-	7	(1)	(1)	-	522
Investment advisory revenue	3	86	-	360	-	(5)	(86)(c)	358
Corporate banking revenue	276	19	-	2	1	1	-	299
Mortgage banking net revenue	-	5	165	2	-	2	-	174
Other noninterest income	30	67	124	5	41	93	-	360

Securities gains (losses), net	-	-	-	-	-	39	-	39
Total noninterest income	458	688	289	377	558	125	(121)	2,374
Noninterest expense:								
Salaries, wages and incentives	201	362	59	140	44	327	-	1,133
Employee benefits	46	104	30	29	9	65	-	283
Payment processing expense	-	17	-	-	127	1	-	145
Net occupancy expense	12	110	6	8	3	82	-	221
Technology and communications	3	13	1	2	31	92	-	142
Equipment expense	1	28	1	1	3	71	-	105
Other noninterest expense	434	371	214	203	125	(454)	(121)	772
Total noninterest expense	697	1,005	311	383	342	184	(121)	2,801
Income before income taxes	848	796	313	112	189	(19)	-	2,239
Applicable income taxes *(a)*	248	281	110	40	66	(55)	-	690
Net income	$600	515	203	72	123	36	-	1,549
Average assets	$31,062	41,139	20,627	4,568	502	4,978	-	102,876

(a) Includes taxable-equivalent adjustments of $31 million.
(b) Electronic payment processing service revenues provided to the banking segments are eliminated in the Consolidated Statements of Income.
(c) Revenue sharing agreements between Investment Advisors and Branch Banking are eliminated in the Consolidated Statements of Income.

ANNUAL REPORT ON FORM 10-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number 0-8076

FIFTH THIRD BANCORP Incorporated in the State of Ohio I.R.S. Employer Identification #31-0854434 Address: 38 Fountain Square Plaza Cincinnati, Ohio 45263 Telephone: (513) 534-5300

Securities registered pursuant to Section 12(b) of the Act:	Name of exchange on which registered:
Common Stock , Without Par Value	The NASDAQ Stock Market LLC
7.25% Trust Preferred Securities of Fifth Third Capital Trust V	New York Stock Exchange
7.25% Trust Preferred Securities of Fifth Third Capital Trust VI	New York Stock Exchange

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K(§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer: x

Accelerated filer: ¨

Non-accelerated filer: ¨

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

There were 532,798,583 shares of the Bancorp s Common Stock, without par value, outstanding as of January 31, 2008. The Aggregate Market Value of the Voting Stock held by non-affiliates of the Bancorp was $18,284,408,149 as of June 30, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

This report incorporates into a single document the requirements of the Securities and Exchange Commission (SEC) with respect to annual reports on Form 10-K and annual reports to shareholders. The Bancorp s Proxy

Statement for the 2008 Annual Meeting of Shareholders is incorporated by reference into Part III of this report.

Only those sections of this 2007 Annual Report to Shareholders that are specified in this Cross Reference Index constitute part of the Registrant s Form 10-K for the year ended December 31, 2007. No other information contained in this 2007 Annual Report to Shareholders shall be deemed to constitute any part of this Form 10-K nor shall any such information be incorporated into the Form 10-K and shall not be deemed filed as part of the Registrant s Form 10-K.

10-K Cross Reference Index

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AVAILABILITY OF FINANCIAL INFORMATION

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

PART I

ITEM 1. BUSINESS

General Information

Fifth Third Bancorp, an Ohio corporation organized in 1975, is a bank holding company as defined by the Bank Holding Company Act of 1956, as amended (the BHCA), and is registered as such with the Board of Governors of the Federal Reserve System (FRB). The Bancorp s principal office is located in Cincinnati, Ohio.

The Bancorp s subsidiaries provide a wide range of financial products and services to the retail, commercial, financial, governmental, educational and medical sectors, including a wide variety of checking, savings and money market accounts, and credit products such as credit cards, installment loans, mortgage loans and leases. Each of the banking subsidiaries has deposit insurance provided by the Federal Deposit Insurance Corporation (FDIC) through the Deposit Insurance Fund. Refer to Exhibit 21 filed as an attachment to this Annual Report on Form 10-K for a list of all the subsidiaries of the Bancorp.

Additional information regarding the Bancorp s businesses is included in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Competition

The Bancorp competes for deposits, loans and other banking services in its principal geographic markets as well as in selected national markets as opportunities arise. In addition to the challenge of attracting and retaining customers for traditional banking services, the Bancorp s competitors include securities dealers, brokers, mortgage bankers, investment advisors and insurance companies. These competitors, with focused products targeted at highly profitable customer segments, compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services in nearly all significant products. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology, product delivery systems and the accelerating pace of consolidation among financial service providers. These competitive trends are likely to continue.

Acquisitions

The Bancorp s strategy for growth includes strengthening its presence in core markets, expanding into contiguous markets and broadening its product offerings while taking into account the integration and other risks of growth. The Bancorp

evaluates strategic acquisition opportunities and conducts due diligence activities in connection with possible transactions. As a result, discussions, and in some cases, negotiations may take place and future acquisitions involving cash, debt or equity securities may occur. These typically involve the payment of a premium over book value and current market price, and therefore, some dilution of book value and net income per share may occur with any future transactions.

Additional information regarding acquisitions is included in the Regulation and Supervision section in addition to Note 2 of the Notes to Consolidated Financial Statements.

Regulation and Supervision

In addition to the generally applicable state and federal laws governing businesses and employers, the Bancorp and its subsidiary banks are subject to extensive regulation by federal and state laws and regulations applicable to financial institutions and their parent companies. Virtually all aspects of the business of the Bancorp and its subsidiary banks are subject to specific requirements or restrictions and general regulatory oversight. The principal objectives of state and federal banking laws are the maintenance of the safety and soundness of financial institutions and the federal deposit insurance system and the protection of consumers or classes of consumers, rather than the specific protection of shareholders of a bank or the parent company of a bank, such as the Bancorp. In addition, the supervision, regulation and examination of the Bancorp and its subsidiaries by the bank regulatory agencies is not intended for the protection of the Bancorp s security holders. To the extent the following material describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation.

The Bancorp is subject to regulation and supervision by the FRB and the Ohio Division of Financial Institutions (the Division). The Bancorp is required to file various reports with, and is subject to examination by, the FRB and the Division. The FRB has the authority to issue orders to bank holding companies to cease and desist from unsound banking practices and violations of conditions imposed by, or violations of agreements with, the FRB. The FRB is also empowered to assess civil money penalties against companies or individuals who violate the Bank Holding Company Act of 1957 (BHCA) or orders or regulations thereunder, to order termination of non-banking activities of non-banking subsidiaries of bank holding companies, and to order termination of ownership and control of a non-banking subsidiary by a bank holding company.

The BHCA requires the prior approval of the FRB, for a bank holding company to acquire substantially all the assets of a bank or acquiring direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank, bank holding company or savings association, or increasing any such non-majority ownership or control of any bank, bank holding company or savings association, or merging or consolidating with any bank holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 generally authorizes bank holding companies to acquire banks located in any state, subject to certain state-imposed age and deposit concentration limits, and also generally authorizes interstate bank holding company and bank mergers and to a lesser extent, interstate branching.

The Gramm-Leach-Bliley Act of 1999 (GLBA) permits a qualifying bank holding company to become a financial holding company (FHC) and thereby to engage directly or indirectly in a broader range of activities than had previously been permitted for a bank holding company under the BHCA.

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Permitted activities include securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are declared by the FRB, in cooperation with the Treasury Department, to be financial in nature or incidental thereto or are declared by the FRB unilaterally to be complementary to financial activities. In addition, a FHC is allowed to conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the FRB. A bank holding company may elect to become a FHC if each of its subsidiary banks is well capitalized, is well managed and has at least a Satisfactory rating under the Federal Community Reinvestment Act (CRA). In 2000, the Bancorp elected and qualified for FHC status under the GLBA.

Unless a bank holding company becomes a FHC under GLBA, the BHCA also prohibits a bank holding company from acquiring a direct or indirect interest in or control of more than 5% of any class of the voting shares of a company that is not a bank or a bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks, except that it may engage in and may own shares of companies engaged in certain activities the FRB has determined to be so closely related to banking or managing or controlling banks as to be proper incident thereto.

The FRB has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The FRB has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless a bank holding company s net income is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization s capital needs, asset quality and overall financial condition. The Bancorp depends in part upon dividends received from its subsidiary banks to fund its activities, including the payment of dividends. Each of the subsidiary banks is subject to regulatory limitations on the amount of dividends it may declare and pay.

Under FRB policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to their support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act (FDIA), the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the default of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default.

The Bancorp owns two state banks, Fifth Third Bank and Fifth Third Bank (Michigan), chartered under the laws of Ohio and Michigan, respectively. These banks are subject to extensive state regulation and examination by the appropriate state banking agency in the particular state or states where each state bank is chartered, by the FRB, and by the FDIC, which insures the deposits of each of the state banks to the maximum extent permitted by law. The federal and state laws and regulations that are applicable to banks regulate, among other matters, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, the amount of loans to individual and related borrowers and the nature, amount of and collateral for certain loans, and the amount of interest that may be charged on loans. Various state consumer laws and regulations also affect the operations of the state banks.

The Bancorp s national subsidiary bank, Fifth Third Bank, N.A. is subject to regulation and examination primarily by the Office of the Comptroller of the Currency (OCC) and secondarily by the FRB and the FDIC, which insures the deposits to the maximum extent permitted by law. The federal laws and regulations that are applicable to national banks regulate, among other matters, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, the amount of loans to individual and related borrowers and the nature, amount of and collateral for certain loans, and the amount of interest that may be charged on loans.

In 2006, the Federal Deposit Insurance Reform Act of 2005 was signed into law (FDIRA). Pursuant to the FDIRA, the Bank Insurance Fund and Savings Association Fund were merged to create the Deposit Insurance Fund. The FDIC was granted broader authority in adjusting deposit insurance premium rates and more flexibility in establishing the designated reserve ratio. FDIRA provided assessment credits to insured depository institutions that could be used to offset 100% of insurance premiums in 2007 and 90% of premiums in 2008-2010 or until they are fully exhausted. Insured depository institutions are placed into one of four risk categories under FDIRA, with the vast majority qualifying for Risk Category I. Risk Category I institutions insurance premiums are based upon CAMELS ratings, long term debt issuer ratings (if applicable) and various financial ratios derived from the Consolidated Report of Condition and Income (Call Report). In 2007, the FDIC set the Deposit Insurance Fund s designated reserve ratio at 1.25% and the Risk Category I assessment rates range from 5 to 7 basis points. The Bancorp expects to fully exhaust its assessment credits in the second quarter of 2008 and anticipates incurring $27 million of FDIC insurance premium for 2008.

Federal law, Sections 23A and 23B of the Federal Reserve Act, restricts transactions between a bank and an affiliated company, including a parent bank holding company. The subsidiary banks are subject to certain restrictions on loans to affiliated companies, on investments in the stock or securities thereof, on the taking of such stock or securities as collateral for loans to any borrower, and on the issuance of a guarantee or letter of credit on their behalf. Among other things, these restrictions limit the amount of such transactions, require collateral in prescribed amounts for extensions of credit, prohibit the purchase of low quality assets and require that the terms of such transactions be substantially equivalent to terms of similar transactions with non-affiliates. One result of these restrictions is a limitation on the subsidiary banks to fund the

Bancorp. Generally, each subsidiary bank is limited in its extensions of credit to any affiliate to 10% of the subsidiary bank s capital and its extension of credit to all affiliates to 20% of the subsidiary bank s capital.

The CRA generally requires insured depository institutions to identify the communities they serve and to make loans and investments and provide services that meet the credit needs of these communities. Furthermore, the CRA requires the FRB to evaluate the performance of each of the subsidiary banks in helping to meet the credit needs of their communities. As a part of the CRA program, the subsidiary banks are subject to periodic examinations by the FRB, and must maintain comprehensive records of their CRA activities for this purpose. During these examinations, the FRB rates such institutions compliance with CRA as Outstanding, Satisfactory, Needs to Improve or Substanti Noncompliance. Failure of an

90 Fifth Third Bancorp

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institution to receive at least a Satisfactory rating could inhibit such institution or its holding company from undertaking certain activities, including engaging in activities permitted as a financial holding company under the GLBA and acquisitions of other financial institutions, or, as discussed above, require divestitures. The FRB must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low- and moderate-income neighborhoods. Fifth Third Bank and Fifth Third Bank (Michigan) received an Outstanding CRA rating and Fifth Third Bank, N.A. received a Satisfactory rating. Because the Bancorp is an FHC, with limited exceptions, the Bancorp may not commence any new financial activities or acquire control of any companies engaged in financial activities in reliance on the GLBA if any of the subsidiary banks receives a CRA rating of less than Satisfactory**.**

The FRB has established capital guidelines for financial holding companies. The FRB and the OCC have also issued regulations establishing capital requirements for banks. Failure to meet capital requirements could subject the Bancorp and its subsidiary banks to a variety of restrictions and enforcement actions. In addition, as discussed above, each of the Bancorp s subsidiary banks must remain well capitalized for the Bancorp to retain its status as a financial holding company.

The minimum risk-based capital requirements adopted by the federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published its new capital guidelines (Basel II) governing the capital adequacy of large, internationally active banking organizations (core banking organizations with at least $250 billion in total assets or at least $10 billion in foreign exposure). In November 2007, the federal banking agencies adopted final rules to implement Basel II for core banking organizations. Under Basel II, core banking organizations will be required to enhance the measurement and management of their risks, including credit risk and operational risk, through the use of advanced approaches for calculating risk-based capital requirements. The agencies announced they will issue a proposed rule that will provide all non-core banking organizations which are not required to adopt Basel II s advance approaches, such as Bancorp, with the option to adopt a standardized approach under Basel II. The proposed rule is intended to be finalized before the core banking organizations may start their first transition period under Basel II. This new proposal will replace the earlier proposal to adopt the so-called Basel IA option.

Until such time as the new rules for non-core banking organizations are adopted, Bancorp is unable to predict whether it will adopt a standardized approach under Basel II.

The FRB, FDIC and other bank regulatory agencies have adopted final guidelines (the Guidelines) for safeguarding confidential, personal customer information. The Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bancorp has adopted a customer information security program that has been approved by the Bancorp s Board of Directors (the Board).

The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, the statute requires explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in the subsidiary banks policies and procedures. The subsidiary banks have implemented a privacy policy effective since the GLBA became law, pursuant to which all of its existing and new customers are notified of the privacy policies.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act), designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Bancorp and its subsidiaries, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. The Bancorp s Board has approved policies and procedures that are believed to be compliant with the Patriot Act.

Certain mutual fund and unit investment trust custody and administrative clients are regulated as investment companies as that term is defined under the Investment Company Act of 1940, as amended (the ICA), and are subject to various examination and reporting requirements. The provisions of the ICA and the regulations promulgated thereunder prescribe the type of institution that may act as a custodian of investment company assets, as well as the manner in which a custodian administers the assets in its custody. As a custodian for a number of investment company clients, these regulations require, among other things, that certain minimum aggregate capital, surplus and undivided profit levels are maintained by the subsidiary banks. Additionally, arrangements with clearing agencies or other securities depositories must meet ICA requirements for segregation of assets, identification of assets and client approval. Future legislative and regulatory changes in the existing laws and regulations governing custody of investment company assets, particularly with respect to custodian qualifications, may have a material and adverse impact on the Bancorp. Currently, management believes the Bancorp is in compliance with all minimum capital and securities depository requirements. Further, the Bancorp is not aware of any proposed or pending regulatory developments, which, if approved, would adversely affect its ability to act as custodian to an investment company.

Investment companies are also subject to extensive record keeping and reporting requirements. These requirements dictate the type, volume and duration of the record keeping the Bancorp undertakes, either in the role as custodian for an investment company or as a provider of administrative services

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to an investment company. Further, specific ICA guidelines must be followed when calculating the net asset value of a client mutual fund. Consequently, changes in the statutes or regulations governing recordkeeping and reporting or valuation calculations will affect the manner in which operations are conducted.

New legislation or regulatory requirements could have a significant impact on the information reporting requirements applicable to the Bancorp and may in the short term adversely affect the Bancorp s ability to service clients at a reasonable cost. Any failure to provide such support could cause the loss of customers and have a material adverse effect on financial results. Additionally, legislation or regulations may be proposed or enacted to regulate the Bancorp in a manner that may adversely affect financial results. Furthermore, the mutual fund industry may be significantly affected by new laws and regulations.

The GLBA amended the federal securities laws to eliminate the blanket exceptions that banks traditionally have had from the definition of broker and dealer. The GLBA also required that there be certain transactional activities that would not be brokerage activities, which banks could effect without having to register as a broker. In September 2007, the FRB and SEC approved Regulation R to govern bank securities activities. Under Regulation R, we will have until January 1, 2009 to comply by either registering as a broker-dealer or pushing out brokerage activities to affiliated broker-dealers. The transactional exemptions will permit, without broker-dealer registration, banks to enter into a de minimis number of riskless principal transactions, certain asset-backed transactions and certain securities lending transactions. The Bancorp is currently evaluating alternatives to ensure that its subsidiary banks will not be required to register as a broker upon the effective date.

The Sarbanes-Oxley Act of 2002, (Sarbanes-Oxley) implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as the Bancorp) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley s principal provisions, many of which have been interpreted through regulations, provide for and include, among other things: (i) the creation of an independent accounting oversight board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (v) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the Bancorp s independent auditors; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (vii) requirements that companies disclose whether at least one member of the audit committee is a financial expert (as such term is defined by the SEC) and if not discussed, why the audit committee does not have a financial expert; (viii) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (ix) a prohibition on personal loans to directors and

officers, except certain loans made by insured financial institutions on nonpreferential terms and in compliance with other bank regulatory requirements; (x) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (xi) requirements that management assess the effectiveness of internal control over financial reporting and the Bancorp s Independent Registered Public Accounting Firm attest to the assessment; and (xii) a range of enhanced penalties for fraud and other violations.

Additional information regarding regulatory matters is included in Note 25 of the Notes to Consolidated Financial Statements.

ITEM 2. PROPERTIES

The Bancorp s executive offices and the main office of Fifth Third Bank are located on Fountain Square Plaza in downtown Cincinnati, Ohio in a 32-story office tower, a five-story office building with an attached parking garage and a separate ten-story office building known as the Fifth Third Center, the William S. Rowe Building and the 530 Building, respectively. The Bancorp s main operations center is located in Cincinnati, Ohio, in a three-story building with an attached parking garage known as the Madisonville Operations Center. A subsidiary of the Bancorp owns 100 percent of these buildings.

At December 31, 2007, the Bancorp, through its banking and non-banking subsidiaries, operated 1,227 banking centers, of which 854 were owned, 270 were leased and 103 for which the buildings are owned but the land is leased. The banking centers are located in the states of Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Pennsylvania, Missouri and Georgia. The Bancorp s significant owned properties are owned free from mortgages and major encumbrances.

EXECUTIVE OFFICERS OF THE BANCORP

Officers are appointed annually by the Board of Directors at the meeting of Directors immediately following the Annual Meeting of Shareholders. The names, ages and positions of the Executive Officers of the Bancorp as of February 22, 2008 are listed below along with their business experience during the past 5 years:

George A. Schaefer, Jr., 62. Chairman of the Bancorp since June 2006. Formerly, Mr. Schaefer was the President and Chief Executive Officer of the Bancorp and Fifth Third Bank since 1990.

Kevin T. Kabat, 51. President and Chief Executive Officer of the Bancorp since June 2006 and April 2007, respectively. Previously, Mr. Kabat was Executive Vice President of the Bancorp since December 2003. Prior to that he was President and CEO of Fifth Third Bank (Michigan) since April 2001.

Greg D. Carmichael, 46. Executive Vice President and Chief Operating Officer of the Bancorp since June 2006. Prior to that he was the Executive Vice President and Chief Information Officer of the Bancorp since June 2003. Previously, Mr. Carmichael was the Chief Information Officer of Emerson Electric Company.

Charles D. Drucker, 44. Executive Vice President of the Bancorp since June 2005 and President of Fifth Third Processing Solutions since July 2004. Previously, Mr. Drucker was Executive Vice President and Chief Operating Officer of STAR ® Debit Services, a division of First Data Corporation.

Bruce K. Lee, 47. Executive Vice President of the Bancorp since June 2005. Previously, Mr. Lee was President and CEO of Fifth Third Bank (Northwestern Ohio) since July 2002 and

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Executive Vice President, Commercial Banking Division, Fifth Third Bank (Northwestern Ohio) since March 2001.

Christopher G. Marshall, 48. Executive Vice President and Chief Financial Officer of the Bancorp since May 2006. Previously, Mr. Marshall was a senior executive for Bank of America and served in various management capacities since 2001.

Daniel T. Poston, 49. Executive Vice President of the Bancorp since June 2003, and Controller of the Bancorp and Fifth Third Bank since July 2007. Formerly, Mr. Poston was the Auditor of the Bancorp and Fifth Third Bank since October 2001 and was Senior Vice President of the Bancorp and Fifth Third Bank since January 2002.

Paul L. Reynolds, 46. Executive Vice President, Secretary and General Counsel of the Bancorp since September 1999, January 2002 and January 2002, respectively.

Mahesh Sankaran, 45. Senior Vice President and Treasurer of the Bancorp since June 2006. Previously, Mr. Sankaran was Treasurer for Huntington Bancshares Incorporated since February 2005. Prior to that Mr. Sankaran was Treasurer for Compass Bankshares, Inc.

Robert A. Sullivan, 53. Senior Executive Vice President of the Bancorp since December 2002. Previously, Mr. Sullivan was President and CEO of Fifth Third Bank (Northwestern Ohio) since March 9, 2001.

Mary E. Tuuk, 43. Executive Vice President and Chief Risk Officer of the Bancorp since June 2007. Previously, Ms. Tuuk was Senior Vice President of Fifth Third Bancorp since 2003 and Senior Vice President of Fifth Third Bank (Western Michigan) since April 2001.

Terry E. Zink, 56. Executive Vice President of the Bancorp since March 2007 and President and CEO of Fifth Third Bank (Chicago) since January 2005. Previously Mr. Zink was the

Executive Vice President/ Region President of Wells Fargo Bank, Nebraska.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The information required by this item is included in the Corporate Information found on the inside of the back cover and in the discussion of dividend limitations that the subsidiaries can pay to the Bancorp discussed in Note 25 of the Notes to the Consolidated Financial Statements. Additionally, as of December 31, 2007, the Bancorp had approximately 55,961 shareholders of record.

Issuer Purchases of Equity Securities

Period	Shares Purchased (a)	Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Shares that May Be Purchased Under the Plans or Programs (b)
October 2007	527	$ -	-	19,201,518
November 2007	377	-	-	19,201,518
December 2007	275	-	-	19,201,518
Total	1,179	$ -	-	19,201,518

(a) The Bancorp repurchased 527, 377 and 275 shares during October, November and December of 2007 in connection with various employee compensation plans of the Bancorp. These purchases are not included against the maximum number of shares that may yet be purchased under the Board of Directors authorization.

(b) On May 21, 2007, the Bancorp announced that its Board of Directors had authorized management to purchase up to 30 million shares of the Bancorp s common stock through the open market or 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.

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The following performance graphs do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Bancorp specifically incorporates the performance graphs by reference therein.

Total Return Analysis

The graphs below summarize the cumulative return experienced by the Bancorp s shareholders over the years 2003 through 2007, and 1998 through 2007, respectively, compared to the S&P 500 Stock, the S&P Banks, and the NASDAQ Banks indices. Beginning with the 2008 Annual Report on Form 10-K, the performance graph will no longer compare Fifth Third s performance to the NASDAQ Banks Index. At 12/31/07, Fifth Third was the second largest bank by market capitalization in the NASDAQ Bank Index and made up approximately seven percent of the index weighting. As a result, the NASDAQ Bank Index does not provide a strong correlation to the Bancorp s peer performance. The Bancorp has shown the 5 and 10-year return of this Index in the following charts:

FIFTH THIRD BANCORP VS. MARKET INDICES

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item relating to the Executive Officers of the Registrant is included in PART I under EXECUTIVE OFFICERS OF THE BANCORP.

The information required by this item concerning Directors and the nomination process is incorporated herein by reference under the caption ELECTION OF DIRECTORS of the Bancorp s Proxy Statement for the 2008 Annual Meeting of Shareholders.

The information required by this item concerning the Audit Committee and Code of Business Conduct and Ethics is incorporated herein by reference under the captions CORPORATE GOVERNANCE and BOARD OF DIRECTORS, ITS COMMITTEES, MEETINGS AND FUNCTIONS of the Bancorp s Proxy Statement for the 2008 Annual Meeting of Shareholders.

The information required by this item concerning Section 16 (a) Beneficial Ownership Reporting Compliance is incorporated herein by reference under the caption SECTION 16 (a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE of the Bancorp s Proxy Statement for the 2008 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference under the captions COMPENSATION DISCUSSION AND ANALYSIS, COMPENSATION COMMITTEE REPORT and COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION of the Bancorp s Proxy Statement for the 2008 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security ownership information of certain beneficial owners and management is incorporated herein by reference under the captions CERTAIN BENEFICIAL OWNERS, ELECTION OF DIRECTORS and COMPENSATION DISCUSSION AND ANALYSIS of the Bancorp s Proxy Statement for the 2008 Annual Meeting of Shareholders.

The information required by this item concerning Equity Compensation Plan information is included in Note 18 of the Notes to the Consolidated Financial Statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference under the captions CERTAIN TRANSACTIONS , ELECTION OF DIRECTORS , CORPORATE GOVERNANCE and BOARD OF DIRECTORS, ITS COMMITTEES, MEETINGS AND FUNCTIONS of the Bancorp s Proxy Statement for the 2008 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference under the caption PRINCIPAL INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES of the Bancorp s Proxy Statement for the 2008 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Financial Statements Filed	Pages
Report of Independent Registered Public Accounting Firm	51
Fifth Third Bancorp and Subsidiaries Consolidated Financial Statements	52-55
Notes to Consolidated Financial Statements	56-87

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

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

3(i)	Second Amended Articles of Incorporation of Fifth Third Bancorp, as amended. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
3(ii)	Code of Regulations of Fifth Third Bancorp, as amended. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
4.1	Junior Subordinated Indenture, dated as of March 20, 1997 between Fifth Third Bancorp and Wilmington Trust Company, as Debenture Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.
4.2	Amended and Restated Trust Agreement, dated as of March 20, 1997 of Fifth Third Capital Trust II, among Fifth Third Bancorp, as Depositor, Wilmington Trust Company, as Property Trustee, and the Administrative Trustees named therein. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.
4.3	Guarantee Agreement, dated as of March 20, 1997 between Fifth Third Bancorp, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.
4.4	Agreement as to Expense and Liabilities, dated as of March 20, 1997 between Fifth Third Bancorp, as the holder of the Common Securities of Fifth Third Capital Trust I and Fifth Third Capital Trust II. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 1997.
4.5	Indenture, dated as of May 23, 2003, between Fifth Third Bancorp and Wilmington Trust Company, as Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2003.
4.6	Global security representing Fifth Third Bancorp s $500,000,000 4.50% Subordinated Notes due 2018. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2003.
4.7	First Supplemental Indenture, dated as of December 20, 2006, between Fifth Third Bancorp and Wilmington Trust Company, as Trustee. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006.
4.8	Global security representing Fifth Third Bancorp s $500,000,000 5.45% Subordinated Notes due 2017. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006.
4.9	Global security representing Fifth Third Bancorp s $250,000,000 Floating Rate Subordinated Notes due 2016. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006.
4.10	First Supplemental Indenture dated as of March 30, 2007 between Fifth Third Bancorp and Wilmington Trust Company, as trustee, to the Junior Subordinated Indenture dated as of May 20, 1997 between Fifth Third and the Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 30, 2007.
4.11	Certificate Representing $500,000,000.00 of 6.50% Junior Subordinated Notes of Fifth Third Bancorp. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.
4.12	Certificate Representing $250,010,000.00 of 6.50% Junior Subordinated Notes of Fifth Third Bancorp. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.

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4.13	Amended and Restated Declaration of Trust dated as of March 30, 2007 of Fifth Third Capital Trust IV among Fifth Third Bancorp, as Sponsor, Wilmington Trust Company, as Property Trustee and Delaware Trustee, and the Administrative Trustees named therein. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.
4.14	Certificate Representing 500,000 6.50% Trust Preferred Securities of Fifth Third Capital Trust IV (liquidation amount $1,000 per Trust Preferred Security). Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.
4.15	Certificate Representing 250,000 6.50% Trust Preferred Securities of Fifth Third Capital Trust IV (liquidation amount $1,000 per Trust Preferred Security). Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.
4.16	Certificate Representing 10 6.50% Common Securities of Fifth Third Capital Trust IV (liquidation amount $1,000 per Common Security). Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.
4.17	Guarantee Agreement, dated as of March 30, 2007 between Fifth Third Bancorp, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.
4.18	Agreement as to Expense and Liabilities, dated as of March 30, 2007 between Fifth Third Bancorp and Fifth Third Capital Trust IV. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.
4.19	Replacement Capital Covenant of Fifth Third Bancorp dated as of March 30, 2007. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 30, 2007.
4.20	Second Supplemental Indenture dated as of August 8, 2007 between Fifth Third Bancorp and Wilmington Trust Company, as trustee, to the Junior Subordinated Indenture dated as of May 20, 1997 between Fifth Third and the Trustee. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on August 8, 2007.
4.21	Certificate Representing $500,010,000 of 7.25% Junior Subordinated Notes of Fifth Third Bancorp. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on August 8, 2007.
4.22	Amended and Restated Declaration of Trust dated as of August 8, 2007 of Fifth Third Capital Trust V among Fifth Third Bancorp, as Sponsor, Wilmington Trust Company, as Property Trustee and Delaware Trustee, and the Administrative Trustees named therein. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on August 8, 2007.
4.23	Certificate Representing 20,000,000 7.25% Trust Preferred Securities of Fifth Third Capital Trust V (liquidation amount $25 per Trust Preferred Security). Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on August 8, 2007.
4.24	Certificate Representing 400 7.25% Trust Preferred Securities of Fifth Third Capital Trust V (liquidation amount $25 per Trust Preferred Security). Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2007.
4.25	Guarantee Agreement, dated as of August 8, 2007 between Fifth Third Bancorp, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on August 8, 2007.
4.26	Agreement as to Expense and Liabilities, dated as of August 8, 2007 between Fifth Third Bancorp and Fifth Third Capital Trust V. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2007.
4.27	Replacement Capital Covenant of Fifth Third Bancorp dated as of August 8, 2007. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2007.
4.28	Third Supplemental Indenture dated as of October 30, 2007 between Fifth Third Bancorp and Wilmington Trust Company, as trustee, to the Junior Subordinated Indenture dated as of May 20, 1997 between Fifth Third and the trustee. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 31, 2007.
4.29	Certificate Representing $862,510,000 of 7.25% Junior Subordinated Notes of Fifth Third Bancorp. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 31, 2007.
4.30	Amended and Restated Declaration of Trust dated as of October 30, 2007 of Fifth Third Capital Trust VI among Fifth Third Bancorp, as Sponsor, Wilmington Trust Company, as Property Trustee and Delaware Trustee, and the Administrative Trustees named therein. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 31, 2007.
4.31	Certificate Representing 20,000,000 7.25% Trust Preferred Securities of Fifth Third Capital Trust VI (liquidation amount $25 per Trust Preferred Security). Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 31, 2007. (Issuer also entered into an identical certificate on October 30, 2007 representing $362,500,000 in aggregate liquidation amount of 7.25% Trust Preferred Securities of Fifth Third Capital

	Trust VI.)
4.32	Certificate Representing 400 7.25% Common Securities of Fifth Third Capital Trust VI (liquidation amount $25 per Trust Preferred Security). Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2007.
4.33	Guarantee Agreement, dated as of October 30, 2007 between Fifth Third Bancorp, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee. Incorporated by reference to Registrant s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 31, 2007.
4.34	Agreement as to Expense and Liabilities, dated as of October 30, 2007 between Fifth Third Bancorp and Fifth Third Capital Trust VI. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2007.
4.35	Replacement Capital Covenant of Fifth Third Bancorp dated as of October 30, 2007. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 31, 2007.
10.1	Fifth Third Bancorp Unfunded Deferred Compensation Plan for Non-Employee Directors. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for fiscal year ended December 31, 1985. *
10.2	Fifth Third Bancorp 1990 Stock Option Plan. Incorporated by reference to Registrant s filing with the Securities and Exchange Commission as an exhibit to the Registrant s Registration Statement on Form S-8, Registration No. 33-34075. *
10.3	Fifth Third Bancorp 1987 Stock Option Plan. Incorporated by reference to Registrant s filing with the Securities and Exchange Commission as an exhibit to the Registrant s Registration Statement on Form S-8, Registration No. 33-13252. *
10.4	Indenture effective November 19, 1992 between Fifth Third Bancorp, Issuer and NBD Bank, N.A., Trustee. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 1992 and as Exhibit 4.1 to the Registrant s Registration Statement on Form S-3, Registration No. 33-54134.
10.5	Fifth Third Bancorp Master Profit Sharing Plan, as Amended. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.6	Fifth Third Bancorp Incentive Compensation Plan. Incorporated by reference to Registrant s Proxy Statement dated February 19, 2004. *
10.7	Amended and Restated Fifth Third Bancorp 1993 Stock Purchase Plan. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003. *
10.8	Fifth Third Bancorp 1998 Long-Term Incentive Stock Plan, as Amended. Incorporated by reference to the Exhibits to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.*
10.9	Fifth Third Bancorp Non-qualified Deferred Compensation Plan, as Amended and Restated.
10.10	CNB Bancshares, Inc. 1999 Stock Incentive Plan, 1995 Stock Incentive Plan, 1992 Stock Incentive Plan and Associate Stock Option Plan; and Indiana Federal Corporation 1986 Stock Option and Incentive Plan. Incorporated by reference to Registrant s filing with the Securities and Exchange Commission as an exhibit to a Registration Statement on Form S-4, Registration No. 333-84955 and by reference to CNB Bancshares Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 1998. *

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10.11	Fifth Third Bancorp Stock Option Gain Deferral Plan. Incorporated by reference to Registrant s Proxy Statement dated February 9, 2001.*
10.12	Amendment No. 1 to Fifth Third Bancorp Stock Option Gain Deferral Plan. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 26, 2006. *
10.13	Old Kent Executive Stock Option Plan of 1986, as Amended. Incorporated by reference to the following filings by Old Kent Financial Corporation with the Securities and Exchange Commission: Exhibit 10 to Form 10-Q for the quarter ended September 30, 1995; Exhibit 10.19 to Form 8-K filed on March 5, 1997; Exhibit 10.3 to Form 8-K filed on March 2, 2000. *
10.14	Old Kent Stock Option Incentive Plan of 1992, as Amended. Incorporated by reference to the following filings by Old Kent Financial Corporation with the Securities and Exchange Commission: Exhibit 10(b) to Form 10-Q for the quarter ended June 30, 1995; Exhibit 10.20 to Form 8-K filed on March 5, 1997; Exhibit 10(d) to Form 10-Q for the quarter ended June 30, 1997; Exhibit 10.3 to Form 8-K filed on March 2, 2000. *
10.15	Old Kent Executive Stock Incentive Plan of 1997, as Amended. Incorporated by reference to Old Kent Financial Corporation s Annual Meeting Proxy Statement dated March 1, 1997. *
10.16	Old Kent Stock Incentive Plan of 1999. Incorporated by reference to Old Kent Financial Corporation s Annual Meeting Proxy Statement dated March 1, 1999. *
10.17	Notice of Grant of Performance Units and Award Agreement. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.18	Notice of Grant of Restricted Stock and Award Agreement (for Executive Officers). Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.19	Notice of Grant of Stock Appreciation Rights and Award Agreement. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.20	Notice of Grant of Restricted Stock and Award Agreement (for Directors). Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004. *
10.21	Franklin Financial Corporation 1990 Incentive Stock Option Plan. Incorporated by reference to Franklin Financial Corporation s Annual Report on Form 10-K for the year ended December 31, 1989.*
10.22	Franklin Financial Corporation 2000 Incentive Stock Option Plan. Incorporated by reference to Franklin Financial Corporation s Registration Statement on Form S-8, Registration No. 333-52928. *
10.23	Amended and Restated First National Bankshares of Florida, Inc. 2003 Incentive Plan. Incorporated by reference to First National Bankshares of Florida, Inc. s Annual Report on Form 10-K for the year ended December 31, 2003. *
10.24	Southern Community Bancorp Equity Incentive Plan. Incorporated by reference to Southern Community Bancorp s Registration Statement on Form SB-2, Registration No. 333-35548. *
10.25	Southern Community Bancorp Director Statutory Stock Option Plan. Incorporated by reference to Southern Community Bancorp s Registration Statement on Form SB-2, Registration No. 333-35548. *
10.26	Peninsula Bank of Central Florida Key Employee Stock Option Plan. Incorporated by reference to Southern Community Bancorp s Annual Report on Form 10-K for the year ended December 31, 2003. *
10.27	Peninsula Bank of Central Florida Director Stock Option Plan. Incorporated by reference to Southern Community Bancorp s Annual Report on Form 10-K for the year ended December 31, 2003. *
10.28	First Bradenton Bank Amended and Restated Stock Option Plan. Incorporated by reference to Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2004. *
10.29	Letter Agreement with R. Mark Graf. Incorporated by reference to the Exhibits to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005. *
10.30	Amendment Dated January 16, 2006 to the Letter Agreement with R. Mark Graf. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2006.
10.31	Separation Agreement between Fifth Third Bancorp and Neal E. Arnold dated as of December 14, 2005. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 22, 2005. *
10.32	Stipulation and Agreement of Settlement dated March 29, 2005, as Amended. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2005.
10.33	Amendment to Stipulation dated May 10, 2005. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2005.
10.34	Second Amendment to Stipulation dated August 12, 2005. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2005.
10.35	Order and Final Judgment of the United States District Court for the Southern District of Ohio. Incorporated by reference to Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2005.
10.36	Offer letter from Fifth Third Bancorp to Christopher G. Marshall dated April 12, 2006. Incorporated by reference to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.*

10.37	Form of Executive Agreements effective February 19, 2007, between Fifth Third Bancorp and Kevin T. Kabat, Robert A. Sullivan, Greg D. Carmichael, Christopher G. Marshall, Carlos Winston Wilkinson, Bruce K. Lee and Charles D. Drucker. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006. *
10.38	Form of Executive Agreements effective February 19, 2007, between Fifth Third Bancorp and Paul L. Reynolds, Malcolm D. Griggs and Daniel T. Poston. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006. *
10.39	Form of Executive Agreement effective February 19, 2007, between Fifth Third Bancorp and Mahesh Sankaran. Incorporated by reference to Registrant s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006. *
12.1	Computations of Consolidated Ratios of Earnings to Fixed Charges.
12.2	Computations of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
14	Code of Ethics. Incorporated by reference to Exhibit 14 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2007.
21	Fifth Third Bancorp Subsidiaries, as of December 31, 2007.
23	Consent of Independent Registered Public Accounting Firm-Deloitte & Touche LLP.
31(i)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
31(ii)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
32(i)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
32(ii)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.

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

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SIGNATURES

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

FIFTH THIRD BANCORP

Registrant

Kevin T. Kabat

President and CEO

Principal Executive Officer

February 22, 2008

Pursuant to requirements of the Securities Exchange Act of 1934, this report has been signed on February 22, 2008 by the following persons on behalf of the Registrant and in the capacities indicated.

OFFICERS:

Kevin T. Kabat

President and CEO

Principal Executive Officer

Christopher G. Marshall

Executive Vice President and CFO

Principal Financial Officer

Daniel T. Poston

Executive Vice President and Controller

Principal Accounting Officer

DIRECTORS:

Darryl F. Allen

John F. Barrett

Ulysses L. Bridgeman, Jr.

James P. Hackett

Gary R. Heminger

Allen M. Hill

Kevin T. Kabat

Robert L. Koch II

Mitchel D. Livingston, Ph.D.

Hendrik G. Meijer

James E. Rogers

George A. Schaefer, Jr.

John J. Schiff, Jr.

Dudley S. Taft

Thomas W. Traylor

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CONSOLIDATED TEN YEAR COMPARISON

AVERAGE ASSETS ($ IN MILLIONS)

	Interest-Earning Assets							
Year	**Loans and Leases**	**Federal Funds Sold *(a)***	**Interest-Bearing Deposits in Banks *(a)***	**Securities**	**Total**	**Cash and Due from Banks**	**Other Assets**	**Total Average Assets**
2007	**$78,348**	**257**	**107**	**$11,630**	**$90,342**	**$2,315**	**$10,613**	**$102,477**
2006	73,493	252	126	20,910	94,781	2,495	8,713	105,238
2005	67,737	88	105	24,806	92,736	2,758	8,102	102,876
2004	57,042	120	195	30,282	87,639	2,216	5,763	94,896
2003	52,414	92	215	28,640	81,361	1,600	5,250	87,481
2002	45,539	155	184	23,246	69,124	1,551	5,007	75,037
2001	44,888	69	132	19,737	64,826	1,482	5,000	70,683
2000	42,690	118	82	18,630	61,520	1,456	4,229	66,611
1999	38,652	224	103	16,901	55,880	1,628	3,344	60,292
1998	36,014	241	135	16,090	52,480	1,566	2,782	56,306

AVERAGE DEPOSITS AND SHORT-TERM BORROWINGS ($ IN MILLIONS)

	Deposits									
					Other					
Year	**Demand**	**Interest Checking**	**Savings**	**Money Market**	**Time**	**Certificates - $100,000 and Over**	**Foreign Office**	**Total**	**Short-Term Borrowings**	**Total**
2007	**$13,261**	**$14,820**	**$14,836**	**$6,308**	**$10,778**	**$6,466**	**$3,155**	**$69,624**	**$6,890**	**$76,514**
2006	13,741	16,650	12,189	6,366	10,500	5,795	3,711	68,952	8,670	77,622
2005	13,868	18,884	10,007	5,170	8,491	4,001	3,967	64,388	9,511	73,899
2004	12,327	19,434	7,941	3,473	6,208	2,403	4,449	56,235	13,539	69,774
2003	10,482	18,679	8,020	3,189	6,426	3,832	3,862	54,490	12,373	66,863
2002	8,953	16,239	9,465	1,162	8,855	2,237	2,018	48,929	7,191	56,120
2001	7,394	11,489	4,928	2,552	13,473	3,821	1,992	45,649	8,799	54,448
2000	6,257	9,531	5,799	939	13,716	4,283	3,896	44,421	9,725	54,146
1999	6,079	8,553	6,206	1,328	13,858	4,197	952	41,173	8,573	49,746
1998	5,627	7,030	6,332	1,471	15,117	3,856	270	39,703	7,095	46,798

INCOME ($ IN MILLIONS, EXCEPT PER SHARE DATA)

						Per Share *(b)*					
									Originally Reported		
Year	**Interest Income**	**Interest Expense**	**Noninterest Income**	**Noninterest Expense**	**Net Income Available to Common Shareholders**	**Earnings**	**Diluted Earnings**	**Dividends Declared**	**Earnings**	**Diluted Earnings**	**Dividend Payout Ratio**
2007	**$6,027**	**$3,018**	**$2,467**	**$3,311**	**$1,075**	**$2.00**	**$1.99**	**$1.70**	**$2.00**	**$1.99**	**84.9%**
2006	5,955	3,082	2,012	2,915	1,188	2.14	2.13	1.58	2.14	2.13	74.2
2005	4,995	2,030	2,374	2,801	1,548	2.79	2.77	1.46	2.79	2.77	52.7
2004	4,114	1,102	2,355	2,863	1,524	2.72	2.68	1.31	2.72	2.68	48.9
2003	3,991	1,086	2,398	2,466	1,664	2.91	2.87	1.13	2.91	2.87	39.4
2002	4,129	1,430	2,111	2,265	1,530	2.64	2.59	.98	2.64	2.59	37.8
2001	4,709	2,278	1,732	2,397	1,001	1.74	1.70	.83	1.74	1.70	48.8
2000	4,947	2,697	1,430	1,981	1,054	1.86	1.83	.70	1.70	1.68	41.7
1999	4,199	2,026	1,302	1,954	871	1.55	1.53	$.58^{2}/3$	1.32	1.29	45.5
1998	4,052	2,047	1,135	1,800	759	1.36	1.34	$.47^{1}/3$	1.09	1.06	44.6

MISCELLANEOUS AT DECEMBER 31 ($ IN MILLIONS, EXCEPT SHARE DATA)

		Shareholders Equity								
Year	**Common Shares Outstanding (b)**	**Common Stock**	**Preferred Stock**	**Capital Surplus**	**Retained Earnings**	**Accumulated Other**	**Treasury Stock**	**Total**	**Book Value Per**	**Allowance for Loan**

						Comprehensive Income			Share (b)	and Lease Losses
2007	**532,671,925**	**$1,295**	**$9**	**$1,779**	**$8,413**	**$(126)**	**$(2,209)**	**$9,161**	**$17.20**	**$937**
2006	556,252,674	1,295	9	1,812	8,317	(179)	(1,232)	10,022	18.02	771
2005	555,623,430	1,295	9	1,827	8,007	(413)	(1,279)	9,446	17.00	744
2004	557,648,989	1,295	9	1,934	7,269	(169)	(1,414)	8,924	16.00	713
2003	566,685,301	1,295	9	1,964	6,481	(120)	(962)	8,667	15.29	697
2002	574,355,247	1,295	9	2,010	5,465	369	(544)	8,604	14.98	683
2001	582,674,580	1,294	9	1,943	4,502	8	(4)	7,752	13.31	624
2000	569,056,843	1,263	9	1,454	3,982	28	(1)	6,735	11.83	609
1999	565,425,468	1,255	9	1,090	3,551	(302)	-	5,603	9.91	573
1998	557,438,774	1,238	9	887	3,179	135	(58)	5,390	9.67	532

(a) Federal funds sold and interest-bearing deposits in banks are combined in other short-term investments in the Consolidated Financial Statements.

(b) Adjusted for stock splits in 2000 and 1998.

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