2004 was a year that it all came together for U.S. Bancorp. Service quality levels have never been higher. Financial results are strong and lead the industry in key measurements. All lines of business are contributing to revenue and growth.

***Fellow Shareholders:***

I am pleased to tell you that in 2004, U.S. Bancorp achieved its goals for the year and delivered on its promises to you.

***STRONG FINANCIAL RESULTS WITH A FOCUS ON REVENUE GROWTH***

We reported record net income of $4.2 billion, a 13 percent increase in diluted earnings per share, and industry-leading returns on assets and equity of 2.17 percent and 21.4 percent, respectively. Credit quality trends continued to improve as credit losses decreased significantly from a year ago. And reflecting our priority to grow revenue, we achieved solid fee income growth.

During the coming year, we will act to sustain those successes. Revenue growth is our primary focus, particularly net interest income from improved commercial lending results. Our consumer lending business continues to grow, and we have made a number of changes surrounding our commercial banking and small business banking lines of business to increase commercial loan growth. We saw middle market commercial loan balances move upward in fourth quarter 2004.

We are very disciplined in our acquisitions, focusing only on those which will enhance revenue growth, create operating scale, build a more profitable business line or strengthen a critical competitive advantage. This strategy has proved very successful, most notably in our payments business, which reported 10.6 percent net revenue growth in 2004.

Our capital position remains strong, and we repurchased 93.8 million shares during 2004.

***INVESTING FOR GROWTH AND SERVICE***

We are investing more in our core businesses to drive revenue growth. Our investments and expertise in new technology have delivered a new generation of electronic options for customers—check imaging, processing, payments, account management, collections and other service delivery systems. Of particular note is the expansion of our merchant processing capabilities in Europe; there are further details of that expansion on [page 16](http://phx.corporate-ir.net/media_files/irol/11/117565/reports/AR2004/Initiatives_for_Success/index.htm#marketDev) of this report. And, we continue to invest in our branch office network in higher-growth markets. There are further details of our in-store and traditional branch expansion program on [page 13](http://phx.corporate-ir.net/media_files/irol/11/117565/reports/AR2004/Advantageous_Business_Mix/consumerBanking.htm#inStoreNetwork) of this report.

We continue to support our pledge of guaranteed high levels of customer service. Investments in delivery and operational systems allowed us to unify systems, simplify procedures, streamline processes and increase the ease of numerous customer transactions and communications. These investments improved customer service and increased customer satisfaction and loyalty, contributing significantly to our ability to attract and retain customers. We have also improved hiring and training practices, and service quality is an integral part of our employees' performance evaluation and incentive programs.

***RATING AGENCIES VIEW U.S. BANK FAVORABLY***

We are pleased that on January 18, 2005, Moody's rating agency upgraded U.S. Bank's ratings. Long-term senior debt at the holding company, U.S. Bancorp, was upgraded to Aa2 from Aa3 while long-term senior ratings of its subsidiary bank, U.S. Bank National Association, were upgraded to Aa1 from Aa2. The main driver behind the upgrade was Moody's view that the corporation's business model will generate strong profitability, and the consistency of that profitability performance is supported by improving risk management and maintenance of very good liquidity.

We were also pleased that on September 27, 2004, Fitch's rating agency upgraded U.S. Bank's ratings. Long- and short-term senior debt at the holding company, U.S. Bancorp, were upgraded to AA- and F1+, respectively, from A+ and F1, respectively. The long-term ratings of its subsidiary bank, U.S. Bank National Association, were upgraded to AA from AA-. The main driver behind the upgrade was Fitch's view of the corporation's solid net interest margin, diverse sources of non-interest income, disciplined expense management and improved asset quality.

The debt ratings established for U.S. Bank by Moody's, Standard and Poor's, and Fitch reflect the ratings agencies' recognition of the strong, consistent financial performance of the company and the quality of the balance sheet.

***U.S. BANCORP IS A CORPORATION  
BUILT ON INTEGRITY***

We recognize that our financial results are only as good as the respect and confidence of the public and our reputation in the industry and in the marketplace. We operate with the highest levels of honesty and integrity, and we have the controls and monitors in place to ensure that is always true. Our Corporate Governance Guidelines, our Privacy Pledge, and our Code of Ethics and Business Conduct can all be found on our internet website at [usbank.com](http://www.usbank.com/). I urge you to visit the site.

***CREATING SHAREHOLDER VALUE IS OUR PRIORITY***

We delivered on our commitment to return at least 80 percent of earnings to shareholders, returning virtually all excess capital to shareholders, 109 percent of earnings in 2004, in the form of dividends and share repurchases. We reaffirmed that commitment with our December 2004 announcement of a 25 percent dividend increase and the authorization of a new 150-million share repurchase program.

This corporation has paid a cash dividend for 142 consecutive years, and we have increased the dividend for 33 consecutive years. That long-time record of dividend increases earned U.S. Bancorp the designation of one of the S&P's 58 "Dividend Aristocrats." Only nine other issues have paid a dividend longer than U.S. Bancorp, which first paid a dividend in 1863.

We manage this corporation to increase the value of your investment in U.S. Bancorp. It's the reason we come to work each day.

Sincerely,  
Jerry A. GrundhoferJerry A. Grundhofer