our 2005 results were excellent across a

wide range of key measures. I am pleased that we were

able to deliver on our promise to produce high-quality earnings and industryleading

returns. At the same time, we maintained superior credit quality

and continued to make revenue-producing investments in this corporation. ***Industry-leading core earnings***

***and consistent performance***

We achieved record earnings of

$4.5 billion in 2005. This represented

$2.42 per diluted share, an 11 percent

increase over our 2004 results. This

is the fourth consecutive year that

we have exceeded our long-term

goal of 10 percent earnings per share

growth. We also improved upon

our industry-leading performance

metrics and posted return on average

assets of 2.21 percent and return

on average equity of 22.5 percent

for the year.

Our financial results reflect our

ability to execute our strategies for

success. These include our long-term

targets for earnings per share

growth of 10 percent and for return

on equity of 20 percent, both of

which we exceeded in 2005. Other

corporate goals include reducing

credit and earnings volatility of the

company and continuing to invest

for future growth. You will read

below more details about our

accomplishing these goals.

Finally, two overriding goals are

to provide high-quality service

to every customer and to target

80 percent return of earnings to

our shareholders. In the pages to

follow, you will see some excellent

examples of ways we are changing

and growing to enhance customer

service. And in the graphs at the

top of the next page, you can see

that we continue our commitment

to creating shareholder value.

***Positive operating leverage and***

***superior efficiency***

Excluding securities gains and

losses and the valuation of our

mortgage servicing rights, we grew

revenue faster than expense in 2005,

thus creating positive operating

leverage— a fundamental objective

of this corporation. In this fiercely

competitive and commodity-like

banking industry, maintaining

superior operating efficiency is

critical. This management team is

dedicated to maintaining superior

operating efficiency, and the year

2005 was no exception, as we

obtained a tangible efficiency ratio

for the year of 40.8 percent.

***Achieving our goal of lowering***

***our credit risk profile***

We are extremely proud of the

improvements we have made in

the company’s overall risk profile.

Our net charge-offs were 51 basis

points of average loans in 2005,

a continued improvement compared

with prior years. Nonperforming

assets at December 31, 2005, were

$644 million, a 14 percent decrease

from the balance at December 31,

2004. The steps we have taken to

reduce the company’s risk profile

we believe will enable us to minimize

the impact of future changes in the

economy, keep our credit costs lower

than our peers and thereby lower the

volatility of operating results.

***Continuing to invest in this company***

We have continued to invest in

our company. In particular, the

acquisitions we have made in our

fee-based businesses over the past

few years have allowed us to achieve

our earnings objectives while

maintaining high returns, despite the

pressure on the net interest margin,

the challenges of the recent and

current interest rate cycle and an

incredibly competitive environment.

Our continued investments in feebased

businesses, distribution channels

and market expansion provide future

growth opportunities for U.S. Bancorp.

These investments have strengthened

our presence and product offerings

for the benefit of our entire customer

base. We operate with an advantageous

mix of businesses and have

strong market positions in fee-based

businesses, particularly merchant

processing and corporate trust. We

have strategically developed a number

of diverse national business lines,

which in addition to our powerhouse

regional consumer and small business

banking, have generated sustainable

profitability. ***Standard & PoorÕs Rating Services***

***raises ratings on U.S. Bancorp***

In January 2006, Standard & Poor’s

(S&P) Ratings Services announced

that it has raised the ratings on

U.S. Bancorp, including its counterparty

credit ratings, to AA-/A-1+

from A+/A-1.

S&P also raised its long-term

counterparty credit ratings on

U.S. Bancorp’s subsidiaries, U.S. Bank

National Association and U.S. Bank

National Association ND, to

AA from AA-. This AA rating is

currently the highest rating given

by S&P to any domestic bank.

We are pleased that our performance

and outlook allowed the rating agencies

to make those ratings increases.

***Managing this company in a way to***

***make you proud of your investment***

U.S. Bancorp was ranked as the

second most respected banking

company in the United States and

the 50th most respected company

in the world, according to a survey

of institutional investors published

in the September 12, 2005 edition

of *Barron’s*. The survey ranked the

world’s 100 largest companies by

market capitalization. Six U.S.

banking corporations made the list,

with U.S. Bancorp one of only two

to make the top 50 ranking.

The publication noted that respondents

to the survey overwhelmingly

cited strong management and

business strategy as the two most

important criteria for ranking

corporations on the list. Other

criteria included competitive edge,

consistent sales and profit growth,

ethical business practices and

product innovation.

***Creating shareholder value is***

***always our priority***

In December 2005, U.S. Bancorp

announced a 10 percent increase in

the dividend rate on U.S. Bancorp

common stock to $1.32 on an

annualized basis, or $0.33 on a

quarterly basis. The quarterly

common stock dividend of $0.33

per common share was payable

on January 16, 2006 to shareholders

of record at the close of business on

December 30, 2005.

That dividend action represents 34

consecutive years of increasing our

dividend. Since 1993, our dividend

has shown a compound annual

growth rate of 19.6 percent. Our

dividend program is an important

part of our shareholders’ total return

on their investment in U.S. Bancorp.

U.S. Bancorp, since 1863 through its

predecessor companies, has paid a

dividend for 143 consecutive years.

In late 2003, our company made

a commitment to return 80 percent

of earnings to our shareholders in

the form of dividends and share

buybacks. In 2005, we returned

90 percent of earnings to our shareholders,

and since we originally

made that commitment, we have

returned 98 percent of our earnings

to shareholders. We expect to

continue to return 80 plus percent

in 2006.

As always, we want you to remember

that 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.

Jerry A. Grundhofer

*Chairman and Chief Executive Officer*

U.S. Bancorp

March 7, 2006