**Fellow Shareholders:**

**Achieving record net income**

U.S. Bancorp reported record net income for 2006. Net income increased to $4.8 billion, or $2.61 per diluted common share, compared with $4.5 billion, or $2.42 per diluted common share in 2005. Once again, we achieved industry-leading profitability metrics with a return on average assets of 2.23 percent and return on average common equity of 23.6 percent.

We are pleased with the financial results, particularly given the challenging economic environment that our company, and the banking industry as a whole, have faced during this past year. Although the growth in diluted earnings per common share for 2006 of 7.9 percent was lower than it has been in the past few years, we believe the emphasis we have placed on growing our fee-based businesses, stabilizing net interest margin, maintaining high credit quality and our disciplined expense control significantly lessened the impact of a disadvantageous yield curve, heightened competition and excess liquidity that the market offered.

During 2006, U.S. Bancorp continued generating increased earnings from noninterest income, reducing vulnerability to rate fluctuations,and we continued taking risk out of the portfolio. In addition, we affirmed U.S. Bank as a leader in corporate trust, with strategic acquisitions of a number of corporate and institutional trust businesses.

Over the past year, we have become even more convinced that our strategy of investing in high-value, high-return fee-based businesses is the right one. The revenue stream and the competitive advantage have been particularly beneficial as the industry has wrestled with the flattened yield curve. To that end, we acquired additional card portfolios and expanded our merchant acquiring and processing business in Western Europe and Canada.

**Preparing U.S. Bancorp for future growth**

We are excited about the transitioning to a new CEO, and elsewhere on these pages you will see information regarding U.S. Bancorp succession planning. We have worked closely together since 1993 in building the new U.S. Bancorp, and we intend to continue on the successful path which has led us to achieving the positive results you’ll read about in this report.

The long-term goals of our company have not changed. Tactics may change as circumstances do, but the underlying goals and guiding principles remain. Chief among these is our steadfast commitment to our shareholders. That includes producing a minimum return on average common equity of 20 percent, targeting an 80 percent return of earnings to shareholders and growing earnings per share by ten percent over the long term.

We are also committed to developing skilled leadership for the future, investing for growth in our businesses, staying ahead of the ever-advancing technological curve and continuing to expand our reach. These goals, combined with disciplined financial management and the flexibility and readiness to seize an opportunity, give us a true sense of confidence in the bright future of this company.

We want to thank our 50,000 employees who delivered on our promises to customers and whose performance made possible our positive results. We are particularly proud that *U.S. Banker* magazine has ranked U.S. Bancorp number one in the nation for its team of women in executive positions at the company. The “Top Banking Team” award was announced in the October 2006 issue of the magazine.

**New board member**

In October 2006, we were pleased to welcome Olivia F. Kirtley to the board of directors. Ms. Kirtley serves on the company’s governance and audit committees. Her extensive experience in those areas makes her a valuable addition to our board. Ms. Kirtley, a Certified Public Accountant, is a business consultant on strategic and corporate governance issues and previously served as vice president of finance and chief financial officer of Vermont American Corporation, a global manufacturer. Prior to joining Vermont American, she was with the accounting firm of Ernst & Young.

**Managing U.S. Bancorp to create shareholder value**

During the fourth quarter of 2006 we announced a 21 percent increase in the dividend rate on U.S. Bancorp common stock. This increased dividend payout allows our superior, industry-leading profitability to be transferred to our shareholders, while allowing us the financial flexibility we need to support balance sheet growth, capital expenditures and small cash acquisitions.

The dividend action continues 35 consecutive years of increasing our dividend. Since 1993, our dividend has shown a compound annual growth rate of 20.8 percent, ranking number one among our peer banking companies. U.S.Bancorp has paid a dividend for 144 consecutive years. We value and appreciate your investment in U.S. Bancorp. From the hiring and development of talented, dedicated employees to providing outstanding customer service to our strategic direction and our everyday management, we work to increase the value of your investment in this company. It’s the reason we come to work each day.

Sincerely,

http://media.corporate-ir.net/media_files/irol/11/117565/AR06/_images/sig_davis.gif  
Richard K. Davis  
*President and Chief Executive Officer*  
U.S. Bancorp

  
Jerry A. Grundhofer  
*Chairman of the Board*  
U.S. Bancorp

February 26, 2007