We are proud of the 2007 financial performance of U.S. Bancorp, given the challenges presented by the economic environment during the second half of 2007. It was another year in which we distinguished our Company from others in the industry.

**Fellow Shareholders:**

December of 2007 marked my one-year anniversary as CEO of U.S. Bancorp. My first year proved to be much more than “business as usual” for our Company and for most companies in the financial services industry. Although our Company’s results were somewhat affected by the rapidly changing economic environment in the latter half of the year, our overall 2007 financial performance clearly demonstrated this Company’s ability to deliver industry-leading returns, capital generation and quality core earnings for the benefit of our shareholders. Although our performance, both in terms of our financial results and total return to shareholders, was relatively superior to that of the industry, 2007 total shareholder return was negative, and that was disappointing to me and our management team.

During the second half of 2007, the banking industry faced issues which included the deterioration in credit quality resulting from exposure to subprime lending and related industry segments, as well as liquidity concerns as investors backed away from mortgagerelated investments and corporate debt offerings.

U.S. Bancorp was not immune to the issues facing the industry, but our Company’s strong balance sheet and capital position, our disciplined approach to interest rate, credit and operational risk, in addition to our strong fee-based businesses and efficient operations, minimized their impact on our results.

Overall, our credit quality remained strong in 2007, with some expected moderate increases in net charge-offs and nonperforming assets, reflecting recent changes in the credit cycle. Our net charge-off and nonperforming asset ratios compared favorably to our peers, denoting our limited exposure to the most stressed industry segments and prudent underwriting standards. Our allowance for loan loss reserves and corresponding coverage ratios were adequate at year end. We expect the economic environment to continue to have a somewhat negative impact on our industry. We believe our overall conservative risk profile and prudent approach to credit will serve us well going forward and mitigate its influence on our Company.

Our Company began and ended the year with a strong capital base. The profitability of our Company has led to industry leading returns on average common equity and average assets, and this generation of capital has enabled us to return earnings to our shareholders through both dividends and share repurchases. The strength of our earnings and capital base, enabled us to return 111 percent of earnings to shareholders in 2007. I am especially proud of the fact that we were able to, once again, increase our dividend last December. This marked the 36th consecutive year in which U.S. Bancorp, through its predecessor companies, has increased its annual dividend rate and the 145th consecutive year that a dividend has been paid to our shareholders.

The financial highlights charts on page 4 and the financial summary on page 5 provide you with a snapshot of our 2007 performance, but I would like to note two significant items that had an impact on our results for 2007. We recorded a $107 million asset valuation loss in the fourth quarter related to the purchase of certain asset-backed commercial paper holdings from several money market funds managed by our subsidiary FAF Advisors. We also reported charges totaling $330 million representing our proportionate share of litigation expense involving Visa® and a number of other Visa® banks. These Visa®-related charges should be more than offset by the Company’s proportionate share of the gains that will be recognized from Visa’s initial public offering, anticipated to be completed during 2008. Neither the valuation losses nor Visa® charges reflected the fundamental performance of our businesses. Together, these items reduced 2007 earnings per share by $.17.

As we manage through these uncertain times, you may be assured that I, the board of directors and senior leaders of our Company will continue to manage U.S. Bancorp with transparency, the highest levels of risk management and the long-term future of the Company as our priorities. We are not exiting businesses, we are expanding them. We are not pulling back investments in our Company; we are increasing resources to grow revenue, build relationships, innovate and expand.

To lead our investments in growth initiatives, in 2007 we established a new division, the Enterprise Revenue Office or ERO, reporting to me. The ERO focuses on developing new ways to build deeper customer relationships, including new product design, and revenue sharing and incentives within the Company. We expect these to add hundreds of millions of dollars of incremental revenue over the next several years.

I believe that the long-term success of our Company lies in our ability to leverage the skill, attitude and common sense of purpose of our extraordinary employees — all 54,000 of us. I want to ensure that each employee has everything he or she needs to excel, by creating a professional, stimulating and challenging workplace focused on employees and their personal and professional growth and performance.

We are investing in the talent and technology that will create competitive advantages. We are building our communities. We are expanding our capabilities while holding fast to a corporate culture that values integrity, transparency, people and performance. I believe that’s the kind of company that will best increase the value of your investment in U.S. Bancorp and the kind of company you can be most proud of.

Our goal is to deliver earnings and a return on your investment that are consistent, predictable and repeatable.

Sincerely,

http://media.corporate-ir.net/media_files/irol/11/117565/USBankAR07/_images/sig_davis.gif  
Richard K. Davis  
Chairman, President and Chief Executive Officer

February 25, 2008