



Form 10-Q/June 30, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from (not applicable)

Commission File Number 1-6880

**U.S. BANCORP**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**41-0255900**  
(I.R.S. Employer  
Identification No.)

**800 Nicollet Mall**  
**Minneapolis, Minnesota 55402**  
(Address of principal executive offices, including zip code)

**651-466-3000**  
(Registrant's telephone number, including area code)

**(not applicable)**  
(Former name, former address and former fiscal year,  
if changed since last report)

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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, and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common Stock, \$.01 Par Value

Outstanding as of July 31, 2006  
1,777,189,374 shares

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### **“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995.**

This Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words “may,” “could,” “would,” “should,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of the Company. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including changes in general business and economic conditions, changes in interest rates, legal and regulatory developments, increased competition from both banks and non-banks, changes in customer behavior and preferences, effects of mergers and acquisitions and related integration, and effects of critical accounting policies and judgments. For discussion of these and other risks that may cause actual results to differ from expectations, refer to our Annual Report on Form 10-K for the year ended December 31, 2005, on file with the Securities and Exchange Commission, including the sections entitled “Risk Factors” and “Corporate Risk Profile.” Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update them in light of new information or future events.

**Table 1** Selected Financial Data

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Percent Change	2006	2005	Percent Change
(Dollars and Shares in Millions, Except Per Share Data)						
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis) (a)	\$ 1,697	\$ 1,761	(3.6)%	\$3,422	\$ 3,512	(2.6)%
Noninterest income	1,752	1,540	13.8	3,366	2,981	12.9
Securities gains (losses), net	3	1	*	3	(58)	*
Total net revenue	3,452	3,302	4.5	6,791	6,435	5.5
Noninterest expense	1,530	1,595	(4.1)	3,030	2,926	3.6
Provision for credit losses	125	144	(13.2)	240	316	(24.1)
Income before taxes	1,797	1,563	15.0	3,521	3,193	10.3
Taxable-equivalent adjustment	11	7	57.1	21	14	50.0
Applicable income taxes	585	435	34.5	1,146	987	16.1
Net income	\$ 1,201	\$ 1,121	7.1	\$2,354	\$ 2,192	7.4
Net income applicable to common equity	\$ 1,184	\$ 1,121	5.6	\$2,337	\$ 2,192	6.6
<b>Per Common Share</b>						
Earnings per share	\$ .66	\$ .61	8.2%	\$1.30	\$ 1.19	9.2%
Diluted earnings per share	.66	.60	10.0	1.29	1.17	10.3
Dividends declared per share	.33	.30	10.0	.66	.60	10.0
Book value per share	10.89	10.88	.1			
Market value per share	30.88	29.20	5.8			
Average common shares outstanding	1,781	1,833	(2.8)	1,791	1,842	(2.8)
Average diluted common shares outstanding	1,805	1,857	(2.8)	1,816	1,869	(2.8)
<b>Financial Ratios</b>						
Return on average assets	2.27%	2.23%		2.25%	2.22%	
Return on average common equity	24.3	22.7		23.8	22.3	
Net interest margin (taxable-equivalent basis)	3.68	3.99		3.74	4.03	
Efficiency ratio (b)	44.4	48.3		44.6	45.1	
<b>Average Balances</b>						
Loans	\$140,863	\$131,275	7.3%	\$140,125	\$129,474	8.2%
Loans held for sale	2,062	1,697	21.5	1,866	1,564	19.3
Investment securities	40,087	42,341	(5.3)	39,885	42,576	(6.3)
Earning assets	184,890	176,730	4.6	184,000	175,022	5.1
Assets	212,407	201,818	5.2	211,222	199,390	5.9
Noninterest-bearing deposits	28,949	29,148	(.7)	28,893	28,784	.4
Deposits	121,233	121,232	—	120,701	120,332	.3
Short-term borrowings	22,246	17,013	30.8	23,295	16,313	42.8
Long-term debt	41,225	36,973	11.5	39,735	36,211	9.7
Shareholders' equity	20,556	19,820	3.7	20,353	19,812	2.7
	June 30, 2006	December 31, 2005				
<b>Period End Balances</b>						
Loans	\$141,382	\$137,806	2.6%			
Allowance for credit losses	2,251	2,251	—			
Investment securities	38,462	39,768	(3.3)			
Assets	213,405	209,465	1.9			
Deposits	122,719	124,709	(1.6)			
Long-term debt	41,952	37,069	13.2			
Shareholders' equity	20,415	20,086	1.6			
Regulatory capital ratios						
Tier 1 capital	8.9%	8.2%				
Total risk-based capital	13.1	12.5				
Leverage	8.2	7.6				
Tangible common equity	5.6	5.9				

\* Not meaningful.

(a) Interest and rates are presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.

(b) Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding securities gains (losses), net.

# Management's Discussion and Analysis

## OVERVIEW

**Earnings Summary** U.S. Bancorp and its subsidiaries (the "Company") reported net income of \$1,201 million for the second quarter of 2006, compared with \$1,121 million for the second quarter of 2005. Net income of \$.66 per diluted common share in the second quarter of 2006 was higher than the same period of 2005 by \$.06 (10.0 percent). Return on average assets and return on average common equity were 2.27 percent and 24.3 percent, respectively, for the second quarter of 2006, compared with returns of 2.23 percent and 22.7 percent, respectively, for the second quarter of 2005. The Company's results for the second quarter of 2006 improved over the same period of 2005, as net income increased by \$80 million (7.1 percent), primarily due to strong growth in a majority of fee-based products.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2006, was \$150 million (4.5 percent) higher than the second quarter of 2005, primarily reflecting a 13.9 percent increase in noninterest income, partially offset by a 3.6 percent decline in net interest income reflecting the impact of rising interest rates during the past several quarters. Noninterest income growth was driven by organic business growth and recent expansion in trust and payment processing businesses. Noninterest income also included a gain related to the initial public offering of a cardholder association. These favorable changes in noninterest income were partially offset by lower mortgage banking revenue due to the impact of adopting the fair value method of accounting under Statement of Financial Accounting Standards No. 156 "Accounting for Servicing of Financial Assets" ("SFAS 156") in the first quarter of 2006. Mortgage banking revenue in the second quarter of 2006 included the effect of principal repayments on the valuation of servicing rights that were previously recognized as part of intangible expense.

Total noninterest expense in the second quarter of 2006 was \$65 million (4.1 percent) lower than the second quarter of 2005, primarily reflecting lower intangible expense due to the adoption of SFAS 156 and lower debt prepayment expense. This was partially offset by incremental operating and business integration costs principally associated with recent acquisitions, increased pension costs and higher expenses related to investments in tax-advantaged projects from a year ago. The efficiency ratio (the ratio of noninterest expense to

taxable-equivalent net revenue excluding net securities gains or losses) was 44.4 percent for the second quarter of 2006, compared with 48.3 percent for the second quarter of 2005.

The provision for credit losses for the second quarter of 2006 decreased \$19 million (13.2 percent), compared with the second quarter of 2005. The decrease in the provision for credit losses year-over-year primarily reflected strong credit quality and the near-term favorable impact of changes in bankruptcy law in the fourth quarter of 2005. Net charge-offs in the second quarter of 2006 were \$125 million, compared with \$144 million in the second quarter of 2005. The decline in credit losses from a year ago was principally due to the impact of changes in bankruptcy legislation that went into effect during the fourth quarter of 2005. Refer to "Corporate Risk Profile" for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

The Company reported net income of \$2,354 million for the first six months of 2006, compared with \$2,192 million for the first six months of 2005. Net income of \$1.29 per diluted common share in the first six months of 2006 was higher than the same period of 2005 by \$.12 (10.3 percent). Return on average assets and return on average common equity were 2.25 percent and 23.8 percent, respectively, for the first six months of 2006, compared with returns of 2.22 percent and 22.3 percent, respectively, for the first six months of 2005. The Company's results for the first six months of 2006 improved over the same period of 2005, as net income rose by \$162 million (7.4 percent), primarily due to strong revenue growth in fee-based products.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2006, was \$356 million (5.5 percent) higher than the first six months of 2005, primarily reflecting a 15.3 percent increase in noninterest income, partially offset by a 2.6 percent decline in net interest income, reflecting the impact of rising interest rates during the past several quarters. Noninterest income growth was driven by organic business growth, recent expansion in trust and payment processing businesses, trading income related to certain derivatives, a favorable settlement during the first quarter of 2006 and the gain from the initial public offering of a cardholder association during the second quarter of 2006. These favorable changes in noninterest

income categories were partially offset by lower mortgage banking revenue due to the impact of adopting SFAS 156 in the first quarter of 2006. In addition, there was a \$61 million favorable variance in net securities gains (losses) in the first six months of 2006 as compared with the same period of 2005.

Total noninterest expense in the first six months of 2006 was \$104 million (3.6 percent) higher than the first six months of 2005, primarily reflecting incremental operating and business integration costs principally associated with recent acquisitions, increased pension costs and higher expenses related to investments in tax-advantaged projects from a year ago. This was partially offset by lower intangible expense due to the adoption of SFAS 156 and lower debt prepayment expense. The efficiency ratio was 44.6 percent for the first six months of 2006, compared with 45.1 percent for the first six months of 2005.

The provision for credit losses for the first six months of 2006 decreased \$76 million (24.1 percent), compared with the first six months of 2005. The decrease in the provision for credit losses year-over-year primarily reflected strong credit quality and the near-term favorable impact of changes in bankruptcy law in the fourth quarter of 2005. Net charge-offs in the first six months of 2006 were \$240 million, compared with \$316 million in the first six months of 2005. The decline in losses from a year ago was principally due to the impact of changes in bankruptcy legislation that went into effect during the fourth quarter of 2005. Refer to “Corporate Risk Profile” for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

## STATEMENT OF INCOME ANALYSIS

**Net Interest Income** Net interest income, on a taxable-equivalent basis, was \$1,697 million in the second quarter of 2006, compared with \$1,761 million in the second quarter of 2005. Net interest income, on a taxable-equivalent basis, was \$3,422 million in the first six months of 2006, compared with \$3,512 million in the first six months of 2005. Average earning assets increased \$8.2 billion (4.6 percent) and \$9.0 billion (5.1 percent) in the second quarter and first six months of 2006, respectively, compared with the same periods of 2005. The increases were primarily driven by growth in residential mortgages, commercial loans, retail loans and commercial real estate loans, partially offset by a decrease in investment securities. The positive impact to net interest income from the growth in earning assets was more than

offset by a lower net interest margin. The net interest margin for the second quarter and first six months of 2006 was 3.68 percent and 3.74 percent, respectively, compared with 3.99 percent and 4.03 percent, respectively, for the same periods of 2005. The year-over-year decline in the net interest margin for the second quarter and first six months of 2006 reflected the competitive lending environment during 2005 and the first half of 2006, asset/liability management decisions and the impact of changes in the yield curve from a year ago. Compared with the same periods of 2005, credit spreads have tightened by approximately 23 basis points in the second quarter and 21 basis points in the first six months of 2006 across most lending products due to competitive pricing and a change in mix due to growth in lower-spread, fixed-rate credit products. The net interest margin also declined due to funding incremental asset growth with higher cost wholesale funding, share repurchases and asset/liability decisions designed to reduce the Company’s interest rate sensitivity position. An increase in the margin benefit of net free funds and loan fees partially offset these factors. Refer to the “Consolidated Daily Average Balance Sheet and Related Yields and Rates” table for further information on net interest income.

Average loans for the second quarter and first six months of 2006 were higher by \$9.6 billion (7.3 percent) and \$10.7 billion (8.2 percent), respectively, compared with the same periods of 2005, reflecting growth in the majority of loan categories. During the first quarter of 2006, the Company began selling an increased proportion of its residential mortgage loan production and anticipates that residential mortgage loan balances will remain essentially flat in future periods.

Average investment securities in the second quarter and first six months of 2006 were \$2.3 billion (5.3 percent) and \$2.7 billion (6.3 percent) lower, respectively, than the same periods of 2005. The change in the balance of the investment securities portfolio from a year ago principally reflected asset/liability management decisions to reduce the focus on residential mortgage assets given the changing interest rate environment and mix of loan growth. Additionally, the Company reclassified approximately \$460 million of principal-only securities to its trading account effective January 1, 2006, in connection with the adoption of SFAS 156. During the second quarter and first six months of 2006, the Company maintained a mix of approximately 40 percent variable-rate securities. Refer to the “Interest Rate Risk Management” section for further information on the sensitivity of net interest income to changes in interest rates.

Average noninterest-bearing deposits for the second quarter and first six months of 2006 remained relatively flat compared with the same periods of the prior year. The average balances for the second quarter and first six months of 2006 decreased \$199 million (.7 percent) and increased \$109 million (.4 percent), respectively, compared with the same periods of 2005, despite a reduction of excess liquidity in the markets.

Average total savings products declined year-over-year by \$2.4 billion (4.2 percent) in the second quarter and \$2.8 billion (4.8 percent) in the first six months of 2006, compared with the same periods of 2005, due to reductions in average money market savings and other savings account balances. Average money market savings balances declined year-over-year primarily due to a decline in balances within the branches. This decrease was partially offset by increases in broker dealer and corporate trust balances. The overall decrease in average money market savings balances year-over-year was primarily the result of the Company's deposit pricing decisions for money market products in relation to fixed-rate deposit products offered. As a result, a portion of branch-based money market savings accounts have migrated to fixed-rate time certificates, while larger customer money market savings accounts have migrated to time deposits greater than \$100,000 as rates increased on the time deposit products.

Average time certificates of deposit less than \$100,000 were higher by \$537 million (4.1 percent) and \$532 million (4.1 percent) in the second quarter and first six months of 2006, respectively, compared with the same periods of 2005. Average time deposits greater than \$100,000 grew \$2.1 billion (10.3 percent) and \$2.5 billion (12.9 percent) in the second quarter and first six months of 2006, respectively, compared with

the same periods of 2005. This growth was broad-based across most areas of the Company including: corporate, commercial, branch banking, private client and corporate trust, as customers migrated balances to higher rate deposits.

**Provision for Credit Losses** The provision for credit losses for the second quarter and first six months of 2006 decreased \$19 million (13.2 percent) and \$76 million (24.1 percent), respectively, compared with the same periods of 2005. The decrease in the provision for credit losses year-over-year primarily reflected stronger credit quality and the near-term favorable impact of changes in bankruptcy law in the fourth quarter of 2005. Net charge-offs in the second quarter and first six months of 2006 were \$125 million and \$240 million, respectively, compared with \$144 million and \$316 million in the second quarter and first six months of 2005, respectively. The decline in losses from a year ago was principally due to the impact of changes in bankruptcy legislation that went into effect during the fourth quarter of 2005. Refer to "Corporate Risk Profile" for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

**Noninterest Income** Noninterest income in the second quarter and first six months of 2006 was \$1,755 million and \$3,369 million, respectively, compared with \$1,541 million and \$2,923 million in the same periods of 2005. The \$214 million (13.9 percent) increase during the second quarter and \$446 million (15.3 percent) increase during the first six months of 2006, compared with the same periods in

**Table 2** Noninterest Income

(Dollars in Millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Percent Change	2006	2005	Percent Change
Credit and debit card revenue	\$ 202	\$ 177	14.1%	\$ 384	\$ 331	16.0%
Corporate payment products revenue	139	120	15.8	266	227	17.2
ATM processing services	61	57	7.0	120	104	15.4
Merchant processing services	253	198	27.8	466	376	23.9
Trust and investment management fees	314	253	24.1	611	500	22.2
Deposit service charges	264	234	12.8	496	444	11.7
Treasury management fees	116	117	(.9)	223	224	(.4)
Commercial products revenue	107	100	7.0	211	196	7.7
Mortgage banking revenue	75	110	(31.8)	99	212	(53.3)
Investment products fees and commissions	42	39	7.7	80	78	2.6
Securities gains (losses), net	3	1	*	3	(58)	*
Other	179	135	32.6	410	289	41.9
Total noninterest income	\$1,755	\$1,541	13.9%	\$3,369	\$2,923	15.3%

\* Not meaningful

2005, were driven by favorable variances in the majority of fee income categories and a \$35 million gain from the initial public offering of a cardholder association included in other income. The increase in noninterest income for the first six months of 2006 also reflected the impact of additional trading income related to certain derivatives recorded in the current year and a favorable variance in securities gains (losses) of \$61 million related to net securities losses recorded in the prior year. This strong growth in revenue was partially offset by the accounting impact of SFAS 156 on mortgage banking revenue.

The growth in credit and debit card revenue was primarily driven by higher customer transaction volumes. The corporate payment products revenue growth reflected organic growth in sales volumes and card usage. ATM processing services revenue for the first six months of 2006 was higher due to the acquisition of an ATM business in May of 2005. Merchant processing services revenue growth reflects an increase in sales volume driven by acquisitions, higher same store sales and equipment fees. Trust and investment management fees increased in the second quarter and first six months year-over-year, primarily due to improved equity market conditions, incremental account growth and customer balances and the acquisition of the corporate and institutional trust business of a large national bank. Deposit service charges grew year-over-year due to increased transaction-related fees and growth in net checking accounts. Other income for the second quarter and first six months of 2006 was higher than the same periods of 2005 due to a \$35 million gain from the initial public offering of a cardholder association. In addition, other income for the first six months of 2006 was higher due to a \$44 million gain on certain interest rate swaps,

end-of-term lease residual value improvement, higher student loan sales gains and the receipt of a favorable settlement within the merchant processing business. These favorable changes in fee-based revenue were partially offset by the decline in mortgage banking revenue, principally driven by the adoption of the fair value method of accounting for mortgage servicing rights (“MSR”) under SFAS 156.

**Noninterest Expense** Noninterest expense was \$1,530 million and \$3,030 million, respectively, in the second quarter and first six months of 2006, a decrease of \$65 million (4.1 percent) and an increase of \$104 million (3.6 percent), respectively, from the same periods of 2005. The decrease in expense in the second quarter of 2006, compared with the second quarter of 2005, reflected the impact of adopting SFAS 156 on other intangible expense and lower debt prepayment expense. The increase in expense in the first six months of 2006, compared with the same period of the prior year, reflected the impact of business acquisitions and related integration costs, partially offset by lower other intangible and debt prepayment expense. Compensation expense was higher year-over-year in the second quarter and first six months of 2006, primarily due to business expansion, including the Company’s payment processing businesses, the acquisition of a large national bank’s corporate and institutional trust business and other growth initiatives. Employee benefits increased year-over-year primarily as a result of higher pension costs. Net occupancy and equipment expense increased in the first six months of 2006 from the same period of 2005 primarily due to business expansion. Technology and communications expense rose due to increased software expense and higher outside data processing expense principally associated with expanding a prepaid gift card program and the acquisition of a large national

**Table 3** Noninterest Expense

(Dollars in Millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Percent Change	2006	2005	Percent Change
Compensation .....	\$ 627	\$ 612	2.5%	\$1,260	\$1,179	6.9%
Employee benefits .....	123	108	13.9	256	224	14.3
Net occupancy and equipment .....	161	159	1.3	326	313	4.2
Professional services .....	41	39	5.1	76	75	1.3
Marketing and business development .....	58	67	(13.4)	98	110	(10.9)
Technology and communications .....	127	113	12.4	244	219	11.4
Postage, printing and supplies .....	66	63	4.8	132	126	4.8
Other intangibles .....	89	181	(50.8)	174	252	(31.0)
Debt prepayment .....	11	54	(79.6)	11	54	(79.6)
Other .....	227	199	14.1	453	374	21.1
Total noninterest expense .....	\$1,530	\$1,595	(4.1)%	\$3,030	\$2,926	3.6%
Efficiency ratio (a) .....	44.4%	48.3%		44.6%	45.1%	

(a) Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding securities gains (losses), net.

bank's corporate and institutional trust business. Other expense increased in the second quarter and first six months of 2006 from the same periods of 2005, primarily due to the increased investments in tax-advantaged projects relative to a year ago and business integration costs. These expense increases were offset by a year-over-year decline in other intangibles expense, reflecting the elimination of MSR amortization and impairment due to the adoption of SFAS 156, and lower debt prepayment expense.

**Income Tax Expense** The provision for income taxes was \$585 million (an effective rate of 32.8 percent) for the second quarter and \$1,146 million (an effective rate of 32.7 percent) for the first six months of 2006, compared with \$435 million (an effective rate of 28.0 percent) and \$987 million (an effective rate of 31.0 percent) for the same periods of 2005. The second quarter of 2005 included a \$94 million reduction in income tax expense related to the resolution of federal income tax examinations covering substantially all of the Company's legal entities for the years 2000 through 2002. For further information on income taxes, refer to Note 9 of the Notes to Consolidated Financial Statements.

## BALANCE SHEET ANALYSIS

**Loans** The Company's total loan portfolio was \$141.4 billion at June 30, 2006, compared with \$137.8 billion at December 31, 2005, an increase of \$3.6 billion (2.6 percent). The increase in total loans was driven primarily by growth in commercial loans, residential mortgages and retail loans. The \$2.4 billion (5.7 percent) increase in commercial loans was primarily driven by new customer relationships, utilization under lines of credit, growth in commercial leasing and corporate payment card balances.

Commercial real estate loans were \$28.6 billion at June 30, 2006, an increase of \$.1 billion (.3 percent)

compared with December 31, 2005. The increase was driven by growth in construction loans, partially offset by a decrease in commercial mortgage balances.

Residential mortgages held in the loan portfolio were \$21.1 billion at June 30, 2006, an increase of \$.3 billion (1.6 percent) compared with December 31, 2005. The growth was the result of an increase in consumer finance originations, partially offset by the Company selling an increased proportion of its residential mortgage loan production in 2006.

Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, increased \$.7 billion (1.6 percent) at June 30, 2006, compared with December 31, 2005. The increase was primarily driven by growth in installment, credit card and home equity loans, partially offset by decreases in retail leasing, home equity lines and student loan balances.

**Investment Securities** Investment securities, both available-for-sale and held-to-maturity, totaled \$38.5 billion at June 30, 2006, compared with \$39.8 billion at December 31, 2005, reflecting purchases of \$3.7 billion of securities, which were more than offset by maturities and prepayments and the reclassification of \$.5 billion of principal-only securities to the trading account effective January 1, 2006, in connection with the adoption of SFAS 156. As of June 30, 2006, approximately 40 percent of the investment securities portfolio represented adjustable-rate financial instruments, compared with 41 percent at December 31, 2005. Adjustable-rate financial instruments include variable-rate collateralized mortgage obligations, mortgage-backed securities, agency securities, adjustable-rate money market accounts and asset-backed securities.

**Table 4 Investment Securities**

June 30, 2006 (Dollars in Millions)	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)
<b>U.S. Treasury and agencies</b>								
Maturing in one year or less	\$ 119	\$ 119	.3	4.70%	\$ —	\$ —	—	—%
Maturing after one year through five years	37	37	2.4	6.39	—	—	—	—
Maturing after five years through ten years	14	14	6.9	7.10	—	—	—	—
Maturing after ten years	338	324	14.1	5.97	—	—	—	—
Total	\$ 508	\$ 494	9.8	5.73%	\$ —	\$ —	—	—%
<b>Mortgage-backed securities (a)</b>								
Maturing in one year or less	\$ 140	\$ 138	.6	5.18%	\$ —	\$ —	—	—%
Maturing after one year through five years	17,298	16,463	3.8	4.53	8	8	3.1	5.75
Maturing after five years through ten years	12,622	11,847	7.5	5.08	—	—	—	—
Maturing after ten years	5,793	5,715	15.1	6.36	—	—	—	—
Total	\$35,853	\$34,163	7.0	5.02%	\$ 8	\$ 8	3.1	5.75%
<b>Asset-backed securities (a)</b>								
Maturing in one year or less	\$ 8	\$ 8	.3	5.33%	\$ —	\$ —	—	—%
Maturing after one year through five years	—	—	—	—	—	—	—	—
Maturing after five years through ten years	—	—	—	—	—	—	—	—
Maturing after ten years	—	—	—	—	—	—	—	—
Total	\$ 8	\$ 8	.3	5.33%	\$ —	\$ —	—	—%
<b>Obligations of state and political subdivisions (b)</b>								
Maturing in one year or less	\$ 52	\$ 52	.4	7.00%	\$ 2	\$ 2	.5	6.04%
Maturing after one year through five years	40	41	2.3	7.01	20	21	3.2	6.31
Maturing after five years through ten years	1,967	1,925	9.2	6.83	14	15	7.9	7.22
Maturing after ten years	742	720	14.3	6.44	37	38	15.8	6.54
Total	\$ 2,801	\$ 2,738	10.3	6.73%	\$73	\$ 76	10.4	6.59%
<b>Other debt securities</b>								
Maturing in one year or less	\$ 256	\$ 256	.1	4.57%	\$ 5	\$ 5	.4	6.44%
Maturing after one year through five years	9	9	1.5	4.52	11	11	3.0	5.44
Maturing after five years through ten years	15	15	10.0	6.25	1	1	5.8	5.15
Maturing after ten years	627	625	21.2	6.06	—	—	—	—
Total	\$ 907	\$ 905	14.8	5.63%	\$17	\$ 17	2.3	5.74%
<b>Other investments</b>	\$ 54	\$ 56	—	—%	\$ —	\$ —	—	—%
<b>Total investment securities (c)</b>	<b>\$40,131</b>	<b>\$38,364</b>	<b>7.4</b>	<b>5.17%</b>	<b>\$98</b>	<b>\$101</b>	<b>8.4</b>	<b>6.37%</b>

- (a) Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.
- (b) Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.
- (c) The weighted-average maturity of the available for sale investment securities was 6.1 years at December 31, 2005, with a corresponding weighted-average yield of 4.89 percent. The weighted-average maturity of the held-to-maturity investment securities was 7.2 years at December 31, 2005, with a corresponding weighted-average yield of 6.44 percent.
- (d) Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity securities are computed based on historical cost balances. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.

(Dollars in Millions)	June 30, 2006		December 31, 2005	
	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	\$ 508	1.3%	\$ 496	1.2%
Mortgage-backed securities	35,861	89.1	38,169	94.4
Asset-backed securities	8	—	12	.1
Obligations of state and political subdivisions	2,874	7.1	724	1.8
Other debt securities and investments	978	2.5	1,029	2.5
Total investment securities	\$40,229	100.0%	\$40,430	100.0%

**Deposits** Total deposits were \$122.7 billion at June 30, 2006, compared with \$124.7 billion at December 31, 2005, a decrease of \$2.0 billion (1.6 percent). The decrease in total deposits was primarily the result of decreases in noninterest-bearing deposits and money market savings accounts, partially offset by increases in interest checking, time certificates of deposits less than \$100,000 and time deposits greater than \$100,000. The \$1.5 billion (4.6 percent) decrease in noninterest-bearing deposits reflected lower balances in most business lines, partially offset by an increase in corporate trust balances due to seasonality. The \$1.3 billion (4.7 percent) decrease in money market savings account balances reflected the Company's deposit pricing decisions for money market products in relation to other fixed-rate deposit products offered. A portion of branch-based money market savings accounts have migrated to fixed-rate time certificates, while larger customer money market savings accounts have migrated to time deposits greater than \$100,000 as rates increased on the time deposit products. Time deposits greater than \$100,000 increased \$.2 billion (1.0 percent) and time certificates of deposit less than \$100,000 increased \$.3 billion (2.1 percent) at June 30, 2006, compared with December 31, 2005. Interest checking accounts increased \$.2 billion (1.0 percent) due to an increase in trust and custody balances, partially offset by decreases in consumer and private banking balances.

**Borrowings** The Company utilizes both short-term and long-term borrowings to fund growth of earning assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, securities sold under agreements to repurchase and other short-term borrowings, were \$20.6 billion at June 30, 2006, compared with \$20.2 billion at December 31, 2005. Short-term funding is managed within approved liquidity policies. The increase of \$.4 billion in short-term borrowings reflected wholesale funding associated with the Company's earning asset growth and asset/liability management activities. Long-term debt was \$42.0 billion at June 30, 2006, compared with \$37.1 billion at December 31, 2005, reflecting the issuances of \$2.0 billion of bank notes, \$1.5 billion of medium-term notes and \$1.8 billion of junior subordinated debentures and the addition of \$2.2 billion of Federal Home Loan Bank ("FHLB") advances, partially offset by \$1.6 billion of medium-term note maturities and \$.7 billion of junior subordinated debentures repayments. Refer to the "Liquidity Risk Management" section for discussion of liquidity management of the Company.

## CORPORATE RISK PROFILE

**Overview** Managing risks is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit, residual, operational, interest rate, market and liquidity risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Residual risk is the potential reduction in the end-of-term value of leased assets or the residual cash flows related to asset securitization and other off-balance sheet structures. Operational risk includes risks related to fraud, legal and compliance risk, processing errors, technology, breaches of internal controls and business continuation and disaster recovery risk. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Rate movements can affect the repricing of assets and liabilities differently, as well as their market value. Market risk arises from fluctuations in interest rates, foreign exchange rates, and equity prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities that are accounted for on a mark-to-market basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. In addition, corporate strategic decisions, as well as the risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company's stock value, customer base or revenue.

**Credit Risk Management** The Company's strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit examinations and management reviews of loans experiencing deterioration of credit quality. The credit risk management strategy also includes a credit risk assessment process, independent of business line managers, that performs assessments of compliance with commercial and consumer credit policies, risk ratings, and other critical credit information. The Company strives to identify potential problem loans early, take any necessary charge-offs promptly and maintain adequate reserve levels for probable loan losses inherent in the portfolio.

In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and

**Table 5** Delinquent Loan Ratios as a Percent of Ending Loan Balances

	June 30, 2006	December 31, 2005
90 days or more past due <b>excluding</b> nonperforming loans		
<b>Commercial</b>		
Commercial .....	.06%	.06%
Lease financing .....	—	—
Total commercial .....	.05	.05
<b>Commercial real estate</b>		
Commercial mortgages .....	—	—
Construction and development .....	.01	—
Total commercial real estate .....	—	—
<b>Residential mortgages</b> .....	.30	.32
<b>Retail</b>		
Credit card .....	1.56	1.26
Retail leasing .....	.03	.04
Other retail .....	.18	.22
Total retail .....	.38	.36
Total loans .....	.19%	.18%
90 days or more past due <b>including</b> nonperforming loans		
Commercial .....	.58%	.69%
Commercial real estate .....	.40	.55
Residential mortgages (a) .....	.49	.55
Retail .....	.50	.50
Total loans .....	.51%	.58%

(a) Delinquent loan ratios exclude 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. Including the guaranteed amounts, the ratio of residential mortgages 90 days or more past due was 3.06 percent at June 30, 2006, and 4.35 percent at December 31, 2005.

geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors. Economic conditions during the second quarter and first six months of 2006 have improved from the same periods of 2005, as reflected in strong expansion of the gross domestic product index, lower unemployment rates, favorable trends related to corporate profits and consumer spending for retail goods and services. Current economic conditions are relatively unchanged from December 31, 2005. The Federal Reserve Bank continued increasing short-term interest rates in an effort to prevent an acceleration of inflation and maintain the current rate of economic growth.

Refer to “Management’s Discussion and Analysis — Credit Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for a more detailed discussion on credit risk management processes.

**Loan Delinquencies** Trends in delinquency ratios represent an indicator, among other considerations, of credit risk within the Company’s loan portfolios. The entire balance of the account is considered delinquent if the minimum payment contractually required to be made is not received by the specified date on the billing statement. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled \$264 million at June 30, 2006, compared with \$253 million at December 31, 2005. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status. The ratio of delinquent loans to total loans was .19 percent at June 30, 2006, and .18 percent at December 31, 2005.

To monitor credit risk associated with retail loans, the Company monitors delinquency ratios in the various stages of collection including nonperforming status.

The following table provides summary delinquency information for residential mortgages and retail loans:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
<b>Residential mortgages</b>				
30-89 days .....	\$105	\$112	.50%	.55%
90 days or more.....	64	67	.30	.32
Nonperforming .....	39	48	.19	.23
<b>Total</b> .....	<b>\$208</b>	<b>\$227</b>	<b>.99%</b>	<b>1.10%</b>
<b>Retail</b>				
<b>Credit card</b>				
30-89 days .....	\$153	\$147	2.06%	2.06%
90 days or more.....	116	90	1.56	1.26
Nonperforming .....	41	49	.55	.69
<b>Total</b> .....	<b>\$310</b>	<b>\$286</b>	<b>4.17%</b>	<b>4.01%</b>
<b>Retail leasing</b>				
30-89 days .....	\$26	\$43	.36%	.59%
90 days or more.....	2	3	.03	.04
Nonperforming .....	—	—	—	—
<b>Total</b> .....	<b>\$28</b>	<b>\$46</b>	<b>.39%</b>	<b>.63%</b>
<b>Other retail</b>				
30-89 days .....	\$162	\$206	.51%	.66%
90 days or more.....	58	70	.18	.22
Nonperforming .....	16	17	.05	.06
<b>Total</b> .....	<b>\$236</b>	<b>\$293</b>	<b>.74%</b>	<b>.94%</b>

**Nonperforming Assets** The level of nonperforming assets represents another indicator of the potential for future credit losses. Nonperforming assets include nonaccrual loans, restructured loans not performing in accordance with modified terms, other real estate and other nonperforming assets owned by the Company. Interest payments collected from assets on nonaccrual status are typically applied against the principal balance and not recorded as income. At June 30, 2006, total nonperforming assets were \$550 million, compared with

\$644 million at December 31, 2005. The ratio of total nonperforming assets to total loans and other real estate decreased to .39 percent at June 30, 2006, compared with .47 percent at December 31, 2005.

Included in nonperforming loans were restructured loans of \$50 million at June 30, 2006, compared with \$75 million at December 31, 2005. At June 30, 2006, the Company had no commitments to lend additional funds under restructured loans, compared to commitments of \$9 million at December 31, 2005.

**Table 6** Nonperforming Assets (a)

(Dollars in Millions)	June 30, 2006	December 31, 2005
<b>Commercial</b>		
Commercial .....	\$203	\$231
Lease financing .....	38	42
Total commercial .....	241	273
<b>Commercial real estate</b>		
Commercial mortgages .....	88	134
Construction and development .....	25	23
Total commercial real estate .....	113	157
<b>Residential mortgages</b> .....	39	48
<b>Retail</b>		
Credit card .....	41	49
Retail leasing .....	—	—
Other retail .....	16	17
Total retail .....	57	66
Total nonperforming loans .....	450	544
<b>Other real estate (b)</b> .....	77	71
<b>Other assets</b> .....	23	29
Total nonperforming assets .....	\$550	\$644
Accruing loans 90 days or more past due .....	\$264	\$253
Nonperforming loans to total loans .....	.32%	.39%
Nonperforming assets to total loans plus other real estate (b) .....	.39%	.47%

**Changes in Nonperforming Assets**

(Dollars in Millions)	Commercial and Commercial Real Estate	Retail and Residential Mortgages (d)	Total
<b>Balance December 31, 2005</b> .....	\$ 457	\$187	\$ 644
Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties .....	139	34	173
Advances on loans .....	18	—	18
Total additions .....	157	34	191
Reductions in nonperforming assets			
Paydowns, payoffs .....	(125)	(36)	(161)
Net sales .....	(21)	—	(21)
Return to performing status .....	(30)	(4)	(34)
Charge-offs (c) .....	(61)	(8)	(69)
Total reductions .....	(237)	(48)	(285)
Net additions to (reductions in) nonperforming assets .....	(80)	(14)	(94)
<b>Balance June 30, 2006</b> .....	\$ 377	\$173	\$ 550

(a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.

(b) Excludes \$87 million of foreclosed GNMA loans which continue to accrue interest.

(c) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.

(d) Residential mortgage information excludes changes related to residential mortgages serviced by others.

**Restructured Loans Accruing Interest** On a case-by-case basis, management determines whether an account that experiences financial difficulties should be modified as to its interest rate or repayment terms to maximize the Company's collection of its balance.

Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the contract is modified are excluded from restructured loans

once repayment performance, in accordance with the modified agreement, has been demonstrated over several payment cycles. Loans that have interest rates reduced below comparable market rates remain classified as restructured loans; however, interest income is accrued at the reduced rate as long as the customer complies with the revised terms and conditions.

The following table provides a summary of restructured loans that continue to accrue interest:

(Dollars in Millions)	Amount		As a Percent of Ending Loan Balances	
	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
Commercial .....	\$ 16	\$ 5	.04%	.01%
Commercial real estate .....	1	1	—	—
Residential mortgages .....	65	59	.31	.28
Credit card .....	252	218	3.39	3.05
Other retail .....	36	32	.09	.08
Total .....	\$370	\$315	.26%	.23%

Restructured loans that continue to accrue interest were higher at June 30, 2006, compared with December 31, 2005, reflecting the impact of the Company implementing higher minimum balance payment requirements for credit card customers in response to industry guidance issued by the banking regulatory agencies.

**Analysis of Loan Net Charge-Offs** Total loan net charge-offs were \$125 million and \$240 million during the second quarter and first six months of 2006, respectively, compared with net charge-offs of \$144 million and \$316 million, respectively, for the same periods of 2005. The ratio of total loan net charge-offs to average loans in the second quarter and first six months of 2006 was .36 percent and .35 percent, respectively, compared with .44 percent and .49 percent, respectively, for the same periods of 2005.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2006 were \$20 million (.11 percent of average loans outstanding), compared with \$13 million (.07 percent of average loans outstanding) in the second quarter of 2005. The increase in net charge-offs reflected lower gross charge-offs, more than offset by a lower level of recoveries as compared with the same quarter of the prior year. Commercial and commercial real estate loan net charge-

offs for the first six months of 2006 were \$34 million (.09 percent of average loans outstanding), compared with \$46 million (.13 percent of average loans outstanding) in the first six months of 2005.

Retail loan net charge-offs for the second quarter of 2006 were \$94 million (.82 percent of average loans outstanding), compared with \$123 million (1.12 percent of average loans outstanding) for the second quarter of 2005. Retail loan net charge-offs for the first six months of 2006 were \$188 million (.82 percent of average loans outstanding), compared with \$253 million (1.17 percent of average loans outstanding) for the first six months of 2005. The decrease in retail loan net charge-offs reflected the impact of the bankruptcy legislation change that occurred in the fourth quarter of 2005. The Company anticipates that bankruptcy charge-offs will return to more normalized levels in future quarters.

The Company's retail lending business utilizes several distinct business processes and channels to originate retail credit including traditional branch lending, indirect lending and a consumer finance division. Each distinct underwriting and origination activity manages unique credit risk characteristics and prices its loan production commensurate with the differing risk profiles. Within Consumer Banking, U.S. Bank Consumer Finance ("USBCF") participates in

**Table 7** Net Charge-offs as a Percent of Average Loans Outstanding

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Commercial</b>				
Commercial .....	.13%	.10%	.09%	.13%
Lease financing .....	.54	.49	.55	.78
Total commercial .....	.18	.14	.15	.20
<b>Commercial real estate</b>				
Commercial mortgages .....	(.02)	.02	.01	.05
Construction and development .....	.05	(.16)	.02	(.03)
Total commercial real estate .....	—	(.03)	.01	.03
<b>Residential mortgages</b> .....	.21	.19	.17	.21
<b>Retail</b>				
Credit card .....	2.72	3.93	2.67	4.02
Retail leasing .....	.11	.27	.17	.36
Home equity and second mortgages .....	.35	.43	.34	.45
Other retail .....	.70	1.01	.74	1.05
Total retail .....	.82	1.12	.82	1.17
Total loans .....	.36%	.44%	.35%	.49%

substantially all facets of the Company's consumer lending activities. USBCF specializes in serving channel-specific and alternative lending markets in residential mortgages, home equity and installment loan financing. USBCF manages loans originated through a broker

network, correspondent relationships and U.S. Bank branch offices. Generally, loans managed by the Company's consumer finance division exhibit higher credit risk characteristics, but are priced commensurate with the differing risk profile.

The following table provides an analysis of net charge-offs as a percent of average loans outstanding managed by the consumer finance division, compared with traditional branch related loans:

(Dollars in Millions)	Three Months Ended June 30				Six Months Ended June 30			
	Average Loan Amount		Percent of Average Loans		Average Loan Amount		Percent of Average Loans	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Consumer Finance (a)</b>								
Residential mortgages .....	\$ 7,295	\$ 5,788	.49%	.49%	\$ 7,055	\$ 5,455	.46%	.52%
Home equity and second mortgages.....	1,984	2,548	1.62	1.57	2,021	2,603	1.50	1.63
Other retail.....	402	387	3.99	4.15	403	385	4.50	4.71
<b>Traditional Branch</b>								
Residential mortgages .....	\$13,573	\$11,410	.06%	.04%	\$13,872	\$11,062	.03%	.05%
Home equity and second mortgages.....	13,051	12,455	.15	.19	12,964	12,321	.16	.20
Other retail.....	16,218	14,747	.62	.92	16,180	14,616	.65	.95
<b>Total Company</b>								
Residential mortgages .....	\$20,868	\$17,198	.21%	.19%	\$20,927	\$16,517	.17%	.21%
Home equity and second mortgages.....	15,035	15,003	.35	.43	14,985	14,924	.34	.45
Other retail.....	16,620	15,134	.70	1.01	16,583	15,001	.74	1.05

(a) Consumer finance category included credit originated and managed by USBCF, as well as home equity and second mortgages with a loan-to-value greater than 100 percent that were originated in the branches.

**Analysis and Determination of the Allowance for Credit**

**Losses** The allowance for loan losses provides coverage for probable and estimable losses inherent in the Company's loan and lease portfolio. Management evaluates the allowance each quarter to determine that it is adequate to cover these inherent losses. The evaluation of each element and the overall allowance is based on a continuing assessment of problem loans, recent loss experience and other factors, including regulatory guidance and economic conditions. Because business processes and credit risks associated with unfunded credit commitments are essentially the same as for loans, the Company utilizes similar processes to estimate its liability for unfunded credit commitments, which is included in other liabilities in the Consolidated Balance Sheet. Both

the allowance for loan losses and the liability for unfunded credit commitments are included in the Company's analysis of the allowance for credit losses.

At June 30, 2006, the allowance for credit losses was \$2,251 million (1.59 percent of loans), compared with an allowance of \$2,251 million (1.63 percent of loans) at December 31, 2005. The ratio of the allowance for credit losses to nonperforming loans was 500 percent at June 30, 2006, compared with 414 percent at December 31, 2005. The ratio of the allowance for credit losses to annualized loan net charge-offs was 449 percent at June 30, 2006, compared with 329 percent at December 31, 2005.

**Table 8** Summary of Allowance for Credit Losses

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Balance at beginning of period .....	\$2,251	\$2,269	\$2,251	\$2,269
<b>Charge-offs</b>				
Commercial				
Commercial .....	24	42	52	74
Lease financing .....	13	15	25	38
Total commercial .....	37	57	77	112
Commercial real estate				
Commercial mortgages .....	3	4	6	10
Construction and development .....	1	1	1	3
Total commercial real estate .....	4	5	7	13
Residential mortgages .....	11	8	19	18
Retail				
Credit card .....	59	73	113	146
Retail leasing .....	6	8	13	19
Home equity and second mortgages .....	16	19	32	40
Other retail .....	43	52	90	105
Total retail .....	124	152	248	310
Total charge-offs .....	176	222	351	453
<b>Recoveries</b>				
Commercial				
Commercial .....	11	33	34	51
Lease financing .....	6	9	11	19
Total commercial .....	17	42	45	70
Commercial real estate				
Commercial mortgages .....	4	3	5	5
Construction and development .....	—	4	—	4
Total commercial real estate .....	4	7	5	9
Residential mortgages .....	—	—	1	1
Retail				
Credit card .....	9	9	17	17
Retail leasing .....	4	3	7	6
Home equity and second mortgages .....	3	3	7	7
Other retail .....	14	14	29	27
Total retail .....	30	29	60	57
Total recoveries .....	51	78	111	137
<b>Net Charge-offs</b>				
Commercial				
Commercial .....	13	9	18	23
Lease financing .....	7	6	14	19
Total commercial .....	20	15	32	42
Commercial real estate				
Commercial mortgages .....	(1)	1	1	5
Construction and development .....	1	(3)	1	(1)
Total commercial real estate .....	—	(2)	2	4
Residential mortgages .....	11	8	18	17
Retail				
Credit card .....	50	64	96	129
Retail leasing .....	2	5	6	13
Home equity and second mortgages .....	13	16	25	33
Other retail .....	29	38	61	78
Total retail .....	94	123	188	253
Total net charge-offs .....	125	144	240	316
Provision for credit losses .....	125	144	240	316
Balance at end of period .....	\$2,251	\$2,269	\$2,251	\$2,269
<b>Components</b>				
Allowance for loan losses .....	\$2,039	\$2,082		
Liability for unfunded credit commitments .....	212	187		
Total allowance for credit losses .....	\$2,251	\$2,269		
<b>Allowance for credit losses as a percentage of</b>				
Period-end loans .....	1.59%	1.70%		
Nonperforming loans .....	500	441		
Nonperforming assets .....	409	372		
Annualized net charge-offs .....	449	393		

Several factors were taken into consideration in evaluating the allowance for credit losses at June 30, 2006, including the risk profile of the portfolios and loan net charge-offs during the period, the level of nonperforming assets, accruing loans 90 days or more past due, delinquency ratios and changes in restructured loan balances compared with December 31, 2005. Management also considered the uncertainty related to certain industry sectors, including the airline industry, and the extent of credit exposure to other borrowers within the portfolio. In addition, concentration risks associated with commercial real estate and the mix of loans, including credit cards, loans originated through the consumer finance division and residential mortgages, and their relative credit risk were evaluated. Finally, the Company considered current economic conditions that might impact the portfolio.

**Residual Risk Management** The Company manages its risk to changes in the residual value of leased assets through disciplined residual valuation setting at the inception of a lease, diversification of its leased assets, regular residual asset valuation reviews and monitoring of residual value gains or losses upon the disposition of assets. As of June 30, 2006, no significant change in the amount of residuals or concentration of the portfolios has occurred since December 31, 2005. Refer to “Management’s Discussion and Analysis — Residual Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on residual risk management.

**Operational Risk Management** The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Corporate Risk Committee (“Risk Committee”) provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant operational risks on a regular basis. Business lines have direct and primary responsibility and accountability for identifying, controlling, and

monitoring operational risks embedded in their business activities. Refer to “Management’s Discussion and Analysis — Operational Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on operational risk management.

**Interest Rate Risk Management** In the banking industry, changes in interest rates is a significant risk that can impact earnings, market valuations and safety and soundness of the entity. To minimize the volatility of net interest income and the market value of assets and liabilities, the Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by its Asset Liability Policy Committee (“ALPC”) and approved by the Board of Directors. ALPC has the responsibility for approving and ensuring compliance with ALPC management policies, including interest rate risk exposure. The Company uses Net Interest Income Simulation Analysis and Market Value of Equity Modeling for measuring and analyzing consolidated interest rate risk.

**Net Interest Income Simulation Analysis** One of the primary tools used to measure interest rate risk and the effect of interest rate changes on net interest income is simulation analysis. Through this simulation, management estimates the impact on net interest income of a 200 basis point upward or downward gradual change of market interest rates over a one-year period. This represents a change, effective in the first quarter of 2006, from a previous policy of estimating the effect of a 300 basis point upward or downward gradual change on net interest income. The simulation also estimates the effect of immediate and sustained parallel shifts in the yield curve of 50 basis points as well as the effect of immediate and sustained flattening or steepening of the yield curve.

Refer to “Management’s Discussion and Analysis — Net Interest Income Simulation Analysis” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on net interest income simulation analysis.

## Sensitivity of Net Interest Income:

	June 30, 2006				December 31, 2005			
	Down 50 Immediate	Up 50 Immediate	Down 200 Gradual	Up 200 Gradual	Down 50 Immediate	Up 50 Immediate	Down 200 Gradual*	Up 200 Gradual*
Net interest income.....	1.17%	(1.39)%	2.55%	(2.94)%	.66%	(.73)%	1.19%	(2.60)%

\* As of January 31, 2006, due to the change to a 200 basis point gradual change policy during the first quarter of 2006.

The table above summarizes the interest rate risk of net interest income based on forecasts over the succeeding 12 months. At June 30, 2006, the Company's overall interest rate risk position was liability sensitive to changes in interest rates. The Company manages the overall interest rate risk profile within policy limits. ALPC policy guidelines limit the estimated change in net interest income to 3.0 percent of forecasted net interest income over the succeeding 12 months. At June 30, 2006, and December 31, 2005, the Company was within its policy guidelines.

**Market Value of Equity Modeling** The Company also utilizes the market value of equity as a measurement tool in managing interest rate sensitivity. The market value of equity measures the degree to which the market values of the Company's assets and liabilities and off-balance sheet instruments will change given a change in interest rates. ALPC guidelines limit the change in market value of equity in a 200 basis point parallel rate shock to 15 percent of the market value of equity assuming interest rates at June 30, 2006. The up 200 basis point scenario resulted in a 6.2 percent decrease in the market value of equity at June 30, 2006, compared with a 6.8 percent decrease at December 31, 2005. The down 200 basis point scenario resulted in a 1.1 percent decrease in the market value of equity at June 30, 2006, compared with a 4.1 percent decrease at December 31, 2005. At June 30, 2006, and December 31, 2005, the Company was within its policy guidelines.

The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. The duration of assets was 1.9 years at June 30, 2006, compared with 1.6 years at December 31, 2005. The duration of liabilities was 1.8 years at June 30, 2006, compared with 1.6 years at December 31, 2005. At June 30, 2006, the duration of equity was 1.9 years, compared with 1.8 years at December 31, 2005. The increased duration of equity measure shows that sensitivity of the market value of equity of the Company was liability sensitive to changes in interest rates. Refer to "Management's Discussion and Analysis — Market Value of Equity Modeling" in the Company's Annual Report on Form 10-K for the year

ended December 31, 2005, for further discussion on market value of equity modeling.

**Use of Derivatives to Manage Interest Rate Risk** In the ordinary course of business, the Company enters into derivative transactions to manage its interest rate, prepayment and foreign currency risks ("asset and liability management positions") and to accommodate the business requirements of its customers ("customer-related positions"). Refer to "Management's Discussion and Analysis — Use of Derivatives to Manage Interest Rate Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on the use of derivatives to manage interest rate risk.

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company's \$24.4 billion of total notional amount of asset and liability management derivative positions at June 30, 2006, \$19.2 billion was designated as either fair value or cash flow hedges or net investment hedges of foreign operations. The cash flow hedge derivative positions are interest rate swaps that hedge the forecasted cash flows from the underlying variable-rate LIBOR loans and floating-rate debt. The fair value hedges are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and subordinated obligations.

In addition, the Company uses forward commitments to sell residential mortgage loans to hedge its interest rate risk related to residential mortgage loans held for sale. Related to its mortgage banking operations, the Company held \$2.3 billion of forward commitments to sell mortgage loans and \$1.7 billion of unfunded mortgage loan commitments that were derivatives in accordance with the provisions of the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedge Activities." The unfunded mortgage loan commitments are reported at fair value as options in Table 9. Beginning in March 2006, the Company entered into U.S. Treasury futures and options on U.S. Treasury futures contracts to hedge the change in fair value related to the election of fair value measurement for its residential MSRs.

**Table 9** Derivative Positions

(Dollars in Millions)	June 30, 2006			December 31, 2005		
	Notional Amount	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Amount	Fair Value	Weighted-Average Remaining Maturity In Years
<b>Asset and Liability Management Positions</b>						
Interest rate contracts						
Receive fixed/pay floating swaps	\$ 5,810	\$(106)	17.73	\$16,370	\$(82)	7.79
Pay fixed/receive floating swaps	8,398	123	2.00	9,163	139	1.33
Futures and forwards						
Buy	53	—	.11	104	—	.07
Sell	5,625	(2)	.14	2,669	(15)	.09
Options						
Written	4,046	(4)	.12	1,086	3	.08
Foreign exchange contracts						
Cross-currency swaps	403	19	9.12	387	11	9.61
Forwards	10	—	.08	404	7	.05
Equity contracts	46	1	2.79	42	3	3.29
<b>Customer-related Positions</b>						
Interest rate contracts						
Receive fixed/pay floating swaps	\$10,218	\$(264)	5.33	\$ 9,753	\$(69)	5.25
Pay fixed/receive floating swaps	10,189	318	5.42	9,707	121	5.25
Options						
Purchased	1,611	14	2.25	1,453	6	2.26
Written	1,597	(13)	2.25	1,453	(5)	2.26
Risk participation agreements (a)						
Purchased	147	—	7.49	143	—	8.02
Written	224	—	5.89	169	—	4.64
Foreign exchange rate contracts						
Forwards and swaps						
Buy	2,265	67	.39	2,042	77	.43
Sell	2,212	(59)	.41	2,018	(73)	.46
Options						
Purchased	134	(1)	.46	56	1	.24
Written	134	1	.46	56	(1)	.24

(a) At June 30, 2006, the credit equivalent amount was \$1 million and \$32 million, compared with \$1 million and \$18 million at December 31, 2005, for purchased and written risk participation agreements, respectively.

At June 30, 2006, the Company had \$36 million in accumulated other comprehensive income related to realized and unrealized losses on derivatives classified as cash flow hedges. Unrealized gains and losses are reflected in earnings when the related cash flows or hedged transactions occur and offset the related performance of the hedged items. The estimated amount to be reclassified from accumulated other comprehensive income into earnings during the remainder of 2006 and the next 12 months is a gain of \$21 million and \$39 million, respectively.

Gains or losses on customer-related derivative positions were not material for the second quarter and first six months of 2006. The change in fair value of forward commitments attributed to hedge ineffectiveness

recorded in noninterest income was not significant for the second quarter of 2006 and was a decrease of \$1 million for the first six months of 2006. The change in the fair value of all other asset and liability management derivative positions attributed to hedge ineffectiveness recorded in noninterest income was not material for the second quarter and first six months of 2006.

The Company enters into derivatives to protect its net investment in certain foreign operations. The Company uses forward commitments to sell specified amounts of certain foreign currencies to hedge its capital volatility risk associated with fluctuations in foreign currency exchange rates. The net amount of gains or losses included in the cumulative translation

adjustment for the second quarter and first six months of 2006 was not material.

**Market Risk Management** In addition to interest rate risk, the Company is exposed to other forms of market risk as a consequence of conducting normal trading activities. Business activities that contribute to market risk include primarily residential mortgage related risks, but also other things, such as proprietary trading and foreign exchange positions. Value at Risk (“VaR”) is a key measure of market risk for the Company. Theoretically, VaR represents the maximum amount that the Company has placed at risk of loss, with a ninety-ninth percentile degree of confidence, to adverse market movements in the course of its risk taking activities. Due to the election of fair value measurement of its residential MSRs and related hedging strategy in the first quarter of 2006, the Company increased its VaR limit to \$40 million at March 31, 2006, compared with \$20 million at December 31, 2005. The Company’s market valuation risk, as estimated by the VaR analysis, was \$16 million at June 30, 2006, compared with \$1 million at December 31, 2005. Refer to “Management’s Discussion and Analysis — Market Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on market risk management.

**Liquidity Risk Management** ALPC establishes policies, as well as analyzes and manages liquidity, to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds, such as high levels of deposit withdrawals or loan demand, in a timely and cost-effective manner. Liquidity management is viewed from long-term and short-term perspectives, as well as from an asset and liability perspective. Management monitors liquidity through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. Refer to “Management’s Discussion and Analysis — Liquidity Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on liquidity risk management.

At June 30, 2006, parent company long-term debt outstanding was \$12.6 billion, compared with \$10.9 billion at December 31, 2005. The \$1.7 billion increase was primarily due to the issuances of \$1.8 billion of junior subordinated debentures and \$1.5 billion of medium-term notes, offset by long-term debt maturities and repayments during the first six months of 2006. As of June 30, 2006, there is no

parent company debt scheduled to mature in the remainder of 2006.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately \$1.1 billion at June 30, 2006.

**Off-Balance Sheet Arrangements** Off-balance sheet arrangements include any contractual arrangement to which an unconsolidated entity is a party, under which the Company has an obligation to provide credit or liquidity enhancements or market risk support. Off-balance sheet arrangements include certain defined guarantees, asset securitization trusts and conduits. Off-balance sheet arrangements also include any obligation under a variable interest held by an unconsolidated entity that provides financing, liquidity, credit enhancement or market risk support.

In the ordinary course of business, the Company enters into an array of commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. The extent of these arrangements is provided in Note 10 of the Notes to Consolidated Financial Statements.

Asset securitizations and conduits represent a source of funding for the Company through off-balance sheet structures. The Company sponsors an off-balance sheet conduit to which it transferred high-grade investment securities, funded by the issuance of commercial paper. The conduit held assets and related commercial paper liabilities of \$3.0 billion at June 30, 2006, and \$3.8 billion at December 31, 2005. The Company provides a liquidity facility to the conduit. A liability for the estimate of the potential risk of loss for the Company as the liquidity facility provider is recorded on the balance sheet in other liabilities and was \$15 million at June 30, 2006, and \$20 million at December 31, 2005. In addition, the Company recorded at fair value its retained residual interest in the investment securities conduit of \$21 million at June 30, 2006, and \$28 million at December 31, 2005.

The Company does not rely significantly on off-balance sheet arrangements for liquidity or capital resources. Refer to “Management’s Discussion and Analysis — Off-Balance Sheet Arrangements” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on off-balance sheet arrangements.

**Table 10** Capital Ratios

(Dollars in Millions)	June 30, 2006	December 31, 2005
Tier 1 capital .....	\$16,841	\$15,145
As a percent of risk-weighted assets .....	8.9%	8.2%
As a percent of adjusted quarterly average assets (leverage ratio) .....	8.2%	7.6%
Total risk-based capital .....	\$24,893	\$23,056
As a percent of risk-weighted assets .....	13.1%	12.5%
Tangible common equity .....	\$11,535	\$11,873
As a percent of tangible assets .....	5.6%	5.9%

**Capital Management** The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. The Company has targeted returning 80 percent of earnings to its common shareholders through a combination of dividends and share repurchases. In the first six months of 2006, the Company returned 116 percent of earnings. The Company continually assesses its business risks and capital position. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. To achieve these capital goals, the Company employs a variety of capital management tools including dividends, common share repurchases, and the issuance of subordinated debt and other capital instruments. Total shareholders' equity was \$20.4 billion at June 30, 2006, compared with \$20.1 billion at December 31, 2005. The increase was the result of corporate earnings and the issuance of \$1.0 billion of non-cumulative, perpetual preferred stock on March 27, 2006, partially offset by share repurchases and dividends.

Table 10 provides a summary of capital ratios as of June 30, 2006, and December 31, 2005. Tier 1 capital at June 30, 2006, was positively affected by the \$1.0 billion issuance of preferred stock and the \$1.8 billion issuance of junior subordinated debentures during the first six months of 2006. All regulatory ratios continue to be in excess of regulatory "well-capitalized" requirements.

On December 21, 2004, the Board of Directors approved and announced an authorization to repurchase 150 million shares of common stock during the next 24 months.

The following table provides a detailed analysis of all shares repurchased under this program during the second quarter of 2006:

Period	Total Number of Shares Purchased as Part of the Program	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under the Program
April .....	6,588,329	\$30.64	35,948,635
May .....	2,284,831	31.17	33,663,804
June .....	811,039	30.89	32,852,765
Total .....	9,684,199	\$30.78	32,852,765

On August 3, 2006, the Company announced that the Board of Directors approved an authorization to repurchase 150 million shares of common stock through December 2008. This new authorization replaces the December 21, 2004, share repurchase program.

#### LINE OF BUSINESS FINANCIAL REVIEW

Within the Company, financial performance is measured by major lines of business, which include Wholesale Banking, Consumer Banking, Wealth Management, Payment Services, and Treasury and Corporate Support. These operating segments are components of the Company about which financial information is available and is evaluated regularly in deciding how to allocate resources and assess performance.

**Basis for Financial Presentation** Business line results are derived from the Company's business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. Refer to "Management's Discussion and Analysis — Line of Business Financial Review" in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on the business lines' basis for financial presentation.

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to the Company's diverse customer base. During 2006, certain organization and methodology changes were made and, accordingly, 2005 results were restated and presented on a comparable basis, including a change in the allocation of risk adjusted capital to the business lines. Business lines are allocated risk adjusted capital based upon economic capital requirements, regulatory capital requirements, goodwill and intangibles. The allocations to the business lines are equal to the capital that is held by the Company. The capital allocations include credit and operational capital allocations which are performed using a Basel II

approach with adjustments for regulatory Tier I leverage requirements.

**Wholesale Banking** offers lending, depository, treasury management and other financial services to middle market, large corporate, commercial real estate, equipment finance, small-ticket leasing and public sector clients, along with lending guaranteed by the Small Business Administration. Wholesale Banking contributed \$298 million of the Company's net income in the second quarter and \$598 million in the first six months of 2006, or increases of \$6 million and \$27 million, respectively, compared with the same periods of 2005. The increases were primarily driven by growth in total net revenue.

Total net revenue increased \$21 million (3.1 percent) in the second quarter and \$46 million (3.4 percent) in the first six months of 2006, compared with the same periods of 2005. Net interest income, on a taxable-equivalent basis, increased \$15 million in the second quarter and \$39 million in the first six months of 2006, compared with the same periods of 2005. The increases in net interest income were driven by growth in average loan balances and wider spreads on total deposits due to the funding benefit associated with the impact of rising interest rates, partially offset by reduced loan spreads due to competitive pricing. The increase in average loans was driven by stronger commercial loan and commercial real estate loan demand in 2005 and the first six months of 2006. Total deposits increased year-over-year driven by growth in fixed-rate time deposits, partially offset by a decrease in interest checking deposits.

The \$6 million (2.7 percent) and \$7 million (1.6 percent) increases in noninterest income in the second quarter and first six months of 2006, respectively, compared with the same periods of 2005, were due to higher commercial products revenue and equipment leasing revenue, partially offset by lower other commercial loan fees and treasury management-related fees. Treasury management-related fees were lower due to higher earnings credits on customers' compensating balances, partially offset by growth in treasury management-related services activity.

Noninterest expense was relatively flat in the second quarter of 2006, compared with the second quarter of 2005. Noninterest expense increased \$8 million (1.7 percent) in the first six months of 2006, compared with the same period of 2005. The increase was primarily driven by higher personnel-related costs and net shared services expense.

The provision for credit losses increased \$12 million in the second quarter and decreased

\$5 million in the first six months of 2006, compared with the same periods of 2005. The increase in the provision for credit losses in the second quarter of 2006 was due to lower net recoveries compared to the second quarter of 2005. Nonperforming assets within Wholesale Banking were \$218 million at June 30, 2006, \$260 million at March 31, 2006, and \$298 million at June 30, 2005. Nonperforming assets as a percentage of period-end loans were .43 percent at June 30, 2006, .52 percent at March 31, 2006, and .63 percent at June 30, 2005. Refer to the "Corporate Risk Profile" section for further information on factors impacting the credit quality of the loan portfolios.

**Consumer Banking** delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail and ATMs. It encompasses community banking, metropolitan banking, in-store banking, small business banking, consumer lending, mortgage banking, consumer finance, workplace banking, student banking and 24-hour banking. Consumer Banking contributed \$488 million of the Company's net income in the second quarter and \$899 million in the first six months of 2006, or increases of \$59 million and \$83, respectively, compared with the same periods of 2005. While the retail banking business grew net income 13.9 percent in the second quarter and 11.2 percent in the first six months of 2006, the contribution of the mortgage banking business increased 12.5 percent and decreased 3.4 percent, respectively, compared with the same periods of 2005.

Total net revenue increased \$22 million (1.6 percent) in the second quarter and \$31 million (1.1 percent) in the first six months of 2006, compared with the same periods of 2005. Net interest income, on a taxable-equivalent basis, increased \$19 million in the second quarter and \$56 million in the first six months of 2006, compared with the same periods of 2005. The year-over-year increases in net interest income were due to strong growth in average loans and the funding benefit of total deposits due to rising interest rates. Partially offsetting these increases were reduced spreads on commercial and retail loans due to competitive pricing. The increases in average loan balances reflected growth in retail loans, residential mortgages, commercial loans and commercial real estate loans. The growth in retail loans was principally driven by an increase in installment loans which increased 15.8 percent in the second quarter and 15.5 percent in the first six months of 2006 over the same periods of 2005. Residential mortgages, which include traditional residential mortgages, grew 21.6 percent in the second

quarter and 27.1 percent in the first six months of 2006, compared with the same periods of a year ago, reflecting the Company's retention of adjustable-rate residential mortgages during 2005. Average balances of residential mortgages are expected to remain essentially flat in future periods due to the Company's decision in the first quarter of 2006 to package and sell the majority of its residential mortgage loan production in the secondary markets. The year-over-year decreases in average deposits were primarily due to a reduction in saving products, offset by growth in interest checking and time deposits. The year-over-year increases in interest checking balances reflected strong branch-based new account deposit growth. On a combined basis, the Consumer Banking line of business generated growth of \$90 million (.3 percent) in average checking account balances in the second quarter of 2006, compared with the second quarter of 2005, driven by 5.7 percent growth in net new checking accounts. Offsetting this growth was a decline in average savings balances of \$3.2 billion (13.0 percent) from second quarter of 2005, principally related to money market accounts. Average time deposit balances grew \$1.6 billion in the second quarter and \$1.7 billion in the first six months of 2006, compared with the same periods of 2005, as a portion of money market balances migrated to fixed-rate time deposit products.

Fee-based noninterest income increased \$3 million in the second quarter and decreased \$25 million in the first six months of 2006, compared with the same periods of 2005. The year-over-year decline in fee-based revenue was driven by a reduction in mortgage banking revenue, partially offset by increases in deposit service charges, retail leasing revenue, and other revenue. The increase in other revenue reflected higher gains from the sales of student loans. The reduction in mortgage banking revenue reflected the adoption of fair value accounting for MSRs as of January 1, 2006.

Noninterest expense decreased \$61 million (9.1 percent) in the second quarter and \$78 million (5.9 percent) in the first six months of 2006, compared with the same periods of 2005. The decreases were primarily attributable to the elimination of MSR amortization under SFAS 156 which resulted in a reduction of other intangible expense. Partially offsetting this decrease were increases in compensation and employee benefit expenses. The increases in compensation and employee benefit expenses reflect the impact of the net addition of 38 in-store and 13 traditional branches at June 30, 2006, compared with June 30, 2005.

The provision for credit losses decreased \$9 million and \$20 million in the second quarter and first six months

of 2006, respectively, compared with the same periods of 2005. The improvements were attributable to lower net charge-offs. As a percentage of average loans outstanding, net charge-offs declined to .30 percent in the second quarter of 2006, compared with .38 percent in the second quarter of 2005. The decline in net charge-offs included both the commercial and retail loan portfolios.

Commercial and commercial real estate loan net charge-offs declined \$3 million in the second quarter of 2006, compared with the second quarter of 2005. Retail loan and residential mortgage net charge-offs declined by \$6 million in the second quarter of 2006, compared with the second quarter of 2005. Nonperforming assets within Consumer Banking were \$275 million at June 30, 2006, \$291 million at March 31, 2006, and \$304 million at June 30, 2005. Nonperforming assets as a percentage of period-end loans were .39 percent at June 30, 2006, .42 percent at March 31, 2006, and .49 percent at June 30, 2005. Refer to the "Corporate Risk Profile" section for further information on factors impacting the credit quality of the loan portfolios.

**Wealth Management** provides trust, private banking, financial advisory, investment management, insurance, custody and mutual fund servicing through six businesses: Private Client Group, Corporate Trust, U.S. Bancorp Investments and Insurance, FAF Advisors, Institutional Trust and Custody and Fund Services. Wealth Management contributed \$148 million of the Company's net income in the second quarter and \$282 million in the first six months of 2006, or increases of \$32 million and \$55 million, respectively, compared with the same periods of 2005. The growth was primarily attributable to higher total net revenue, partially offset by an increase in noninterest expense.

Total net revenue increased \$88 million (21.6 percent) in the second quarter and \$170 million (21.2 percent) in the first six months of 2006, compared with the same periods of 2005. Net interest income, on a taxable-equivalent basis, increased \$21 million in the second quarter and \$47 million in the first six months of 2006, compared with the same periods of 2005. The increases in net interest income were due to growth in total average deposits and the favorable impact of rising interest rates on the funding benefit of customer deposits, partially offset by a decline in loan spreads. The increase in total deposits was attributable to growth in noninterest-bearing deposits and time deposits principally in Corporate Trust. Noninterest income increased \$67 million in the second quarter and \$123 million in the first six months of 2006, compared with the same periods of 2005, primarily driven by the acquisition of the corporate and institutional trust

business of a large national bank, growth in core revenue, and favorable equity market valuations.

Noninterest expense increased \$39 million (17.5 percent) in the second quarter and \$84 million (19.0 percent) in the first six months of 2006, compared with the same periods of 2005. The increases in noninterest expense were primarily attributable to the acquisition of a large national bank's corporate and institutional trust business.

**Payment Services** includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit, ATM processing and merchant processing. Payment Services contributed \$251 million of the Company's net income in the second quarter and \$474 in the first six months of 2006, or increases of \$68 million and \$123 million, respectively, compared with the same periods of 2005. The increases were due to growth in total net revenue driven by higher transaction volumes and a lower provision for credit losses, partially offset by increases in total noninterest expense.

Total net revenue increased \$128 million (18.8 percent) in the second quarter and \$251 million (19.1 percent) in the first six months of 2006, compared with the same periods of 2005. Net interest income increased \$21 million in the second quarter and \$38 million in the first six months of 2006, compared with the same periods of 2005. The increases were primarily due to increases in retail credit card balances and customer late fees, partially offset by an increase in nonearning assets resulting in higher funding expense. Noninterest income increased \$107 million in the second quarter and \$213 million in the first six months of 2006, compared with the same periods of 2005. The increases in fee-based revenue were driven by strong growth in credit card and debit card revenue, corporate payment products revenue, ATM processing services revenue and merchant processing revenue. Credit and debit card revenue increased due to higher customer transaction volume. Corporate payment products revenue reflected organic growth in sales volumes and card usage. ATM processing services revenue increased primarily due to the acquisition of an ATM business in May of 2005. Merchant processing revenue also grew from a year ago due to an increase in sales volume driven by acquisitions, higher same store sales and equipment fees. Noninterest income for the first six months of 2006 also included the impact of a \$10 million settlement in the first quarter.

Noninterest expense increased \$48 million (15.8 percent) in the second quarter and \$113 million (19.5 percent) in the first six months of 2006, compared with the same periods of 2005. The increases in noninterest expense were primarily attributable to the

acquisition of merchant acquiring businesses, higher compensation and employee benefit costs for processing associated with increased credit and debit card transaction volumes, higher corporate payment products and merchant processing sales volumes, and higher ATM processing services volumes.

The provision for credit losses decreased \$27 million (29.3 percent) in the second quarter and \$56 million (30.9 percent) in the first six months of 2006, compared with the same periods of 2005, due to lower net charge-offs. As a percentage of average loans outstanding, net charge-offs were 2.16 percent in the second quarter of 2006, compared with 3.26 percent in the second quarter of 2005. The favorable change in credit losses reflected the near-term impact of changes in bankruptcy legislation in the fourth quarter of 2005.

**Treasury and Corporate Support** includes the Company's investment portfolios, funding, capital management and asset securitization activities, interest rate risk management, the net effect of transfer pricing related to average balances and the residual aggregate of those expenses associated with corporate activities that are managed on a consolidated basis. In addition, prior to the adoption of SFAS 156, changes in MSR valuations due to interest rate changes were managed at a corporate level and, as such, reported within this business unit. Treasury and Corporate Support recorded net income of \$16 million in the second quarter and \$101 million in the first six months of 2006, or decreases of \$85 million and \$126 million, respectively, compared with the same periods of 2005.

Total net revenue decreased \$109 million (92.4 percent) in the second quarter and \$142 million (61.2 percent) in the first six months of 2006, compared with the same periods of 2005. The year-over-year decreases in total net revenue were primarily due to unfavorable variances in net interest income, partially offset by higher noninterest income. The decrease in net interest income reflected the impact of a flatter yield curve and asset/liability management decisions during the past year, including reducing the investment securities portfolio, changes in interest rate derivative positions and the issuance of higher cost wholesale funding. Noninterest income increased \$31 million in the second quarter and \$128 million in the first six months of 2006, compared with the same periods of 2005. The increase in noninterest income in the second quarter and first six months of 2006 was driven by a gain from an initial public offering of a cardholder association. The increase during the first six months of 2006 was also due to a gain on derivatives that did not qualify as hedges, realized in the first quarter of 2006, and securities losses incurred in the first six months of 2005.

**Table 11** Line of Business Financial Performance

Three Months Ended June 30 (Dollars in Millions)	Wholesale Banking			Consumer Banking		
	2006	2005	Percent Change	2006	2005	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 478	\$ 463	3.2%	\$ 968	\$ 949	2.0%
Noninterest income	224	220	1.8	465	462	.6
Securities gains (losses), net	2	—	*	—	—	—
Total net revenue	704	683	3.1	1,433	1,411	1.6
Noninterest expense	230	231	(.4)	600	609	(1.5)
Other intangibles	4	4	—	12	64	(81.3)
Total noninterest expense	234	235	(.4)	612	673	(9.1)
Income before provision and income taxes	470	448	4.9	821	738	11.2
Provision for credit losses	1	(11)	*	54	63	(14.3)
Income before income taxes	469	459	2.2	767	675	13.6
Income taxes and taxable-equivalent adjustment	171	167	2.4	279	246	13.4
Net income	\$ 298	\$ 292	2.1	\$ 488	\$ 429	13.8
<b>Average Balance Sheet Data</b>						
Commercial	\$33,292	\$31,187	6.7%	\$ 6,380	\$ 6,143	3.9%
Commercial real estate	17,346	16,630	4.3	10,699	10,226	4.6
Residential mortgages	59	57	3.5	20,365	16,742	21.6
Retail	40	28	42.9	35,112	33,710	4.2
Total loans	50,737	47,902	5.9	72,556	66,821	8.6
Goodwill	1,329	1,329	—	2,108	2,108	—
Other intangible assets	55	73	(24.7)	1,453	1,168	24.4
Assets	56,934	53,886	5.7	80,774	74,795	8.0
Noninterest-bearing deposits	12,107	12,303	(1.6)	12,720	13,035	(2.4)
Interest checking	3,164	3,189	(.8)	17,789	17,384	2.3
Savings products	5,569	5,469	1.8	21,393	24,581	(13.0)
Time deposits	13,020	12,267	6.1	18,669	17,034	9.6
Total deposits	33,860	33,228	1.9	70,571	72,034	(2.0)
Shareholders' equity	5,554	5,308	4.6	6,436	6,457	(.3)

Six Months Ended June 30 (Dollars in Millions)	Wholesale Banking			Consumer Banking		
	2006	2005	Percent Change	2006	2005	Percent Change
<b>Condensed Income Statement</b>						
Net interest income (taxable-equivalent basis)	\$ 950	\$ 911	4.3%	\$ 1,918	\$ 1,862	3.0%
Noninterest income	449	448	.2	848	873	(2.9)
Securities gains (losses), net	2	(4)	*	—	—	—
Total net revenue	1,401	1,355	3.4	2,766	2,735	1.1
Noninterest expense	459	451	1.8	1,211	1,188	1.9
Other intangibles	8	8	—	25	126	(80.2)
Total noninterest expense	467	459	1.7	1,236	1,314	(5.9)
Income before provision and income taxes	934	896	4.2	1,530	1,421	7.7
Provision for credit losses	(7)	(2)	*	117	137	(14.6)
Income before income taxes	941	898	4.8	1,413	1,284	10.0
Income taxes and taxable-equivalent adjustment	343	327	4.9	514	468	9.8
Net income	\$ 598	\$ 571	4.7	\$ 899	\$ 816	10.2
<b>Average Balance Sheet Data</b>						
Commercial	\$32,866	\$30,709	7.0%	\$ 6,345	\$ 6,010	5.6%
Commercial real estate	17,312	16,615	4.2	10,650	10,194	4.5
Residential mortgages	61	60	1.7	20,420	16,069	27.1
Retail	42	38	10.5	35,075	33,425	4.9
Total loans	50,281	47,422	6.0	72,490	65,698	10.3
Goodwill	1,329	1,329	—	2,107	2,109	(.1)
Other intangible assets	57	76	(25.0)	1,392	1,141	22.0
Assets	56,287	53,248	5.7	80,405	73,251	9.8
Noninterest-bearing deposits	12,049	12,125	(.6)	12,747	12,937	(1.5)
Interest checking	3,139	3,397	(7.6)	17,722	17,198	3.0
Savings products	5,427	5,351	1.4	21,877	25,027	(12.6)
Time deposits	12,536	11,660	7.5	18,422	16,760	9.9
Total deposits	33,151	32,533	1.9	70,768	71,922	(1.6)
Shareholders' equity	5,474	5,296	3.4	6,424	6,445	(.3)

\* Not meaningful

Wealth Management			Payment Services			Treasury and Corporate Support			Consolidated Company		
2006	2005	Percent Change	2006	2005	Percent Change	2006	2005	Percent Change	2006	2005	Percent Change
\$ 127	\$ 106	19.8%	\$ 156	\$ 135	15.6%	\$ (32)	\$ 108	*%	\$ 1,697	\$ 1,761	(3.6)%
369	302	22.2	654	547	19.6	40	9	*	1,752	1,540	13.8
—	—	—	—	—	—	1	1	—	3	1	*
496	408	21.6	810	682	18.8	9	118	(92.4)	3,452	3,302	4.5
240	208	15.4	300	260	15.4	71	106	(33.0)	1,441	1,414	1.9
22	15	46.7	51	43	18.6	—	55	*	89	181	(50.8)
262	223	17.5	351	303	15.8	71	161	(55.9)	1,530	1,595	(4.1)
234	185	26.5	459	379	21.1	(62)	(43)	(44.2)	1,922	1,707	12.6
2	2	—	65	92	(29.3)	3	(2)	*	125	144	(13.2)
232	183	26.8	394	287	37.3	(65)	(41)	(58.5)	1,797	1,563	15.0
84	67	25.4	143	104	37.5	(81)	(142)	43.0	596	442	34.8
\$ 148	\$ 116	27.6	\$ 251	\$ 183	37.2	\$ 16	\$ 101	(84.2)	\$ 1,201	\$ 1,121	7.1
\$ 1,520	\$ 1,582	(3.9)%	\$ 3,758	\$ 3,433	9.5%	\$ 120	\$ 172	(30.2)%	\$ 45,070	\$ 42,517	6.0%
689	639	7.8	—	—	—	61	87	(29.9)	28,795	27,582	4.4
440	393	12.0	—	—	—	4	6	(33.3)	20,868	17,198	21.3
2,422	2,313	4.7	8,512	7,878	8.0	44	49	(10.2)	46,130	43,978	4.9
5,071	4,927	2.9	12,270	11,311	8.5	229	314	(27.1)	140,863	131,275	7.3
1,378	874	57.7	2,463	2,030	21.3	1	—	*	7,279	6,341	14.8
473	316	49.7	1,165	972	19.9	—	3	*	3,146	2,532	24.2
7,487	6,647	12.6	17,294	15,163	14.1	49,918	51,327	(2.7)	212,407	201,818	5.2
3,668	3,616	1.4	297	134	*	157	60	*	28,949	29,148	(.7)
2,379	2,445	(2.7)	—	—	—	1	6	(83.3)	23,333	23,024	1.3
5,677	5,368	5.8	19	15	26.7	43	16	*	32,701	35,449	(7.8)
2,900	1,102	*	3	1	*	1,658	3,207	(48.3)	36,250	33,611	7.9
14,624	12,531	16.7	319	150	*	1,859	3,289	(43.5)	121,233	121,232	—
2,349	1,663	41.3	4,747	4,011	18.3	1,470	2,381	(38.3)	20,556	19,820	3.7

Wealth Management			Payment Services			Treasury and Corporate Support			Consolidated Company		
2006	2005	Percent Change	2006	2005	Percent Change	2006	2005	Percent Change	2006	2005	Percent Change
\$ 252	\$ 205	22.9%	\$ 319	\$ 281	13.5%	\$ (17)	\$ 253	*%	\$ 3,422	\$ 3,512	(2.6)%
719	596	20.6	1,244	1,031	20.7	106	33	*	3,366	2,981	12.9
—	—	—	—	—	—	1	(54)	*	3	(58)	*
971	801	21.2	1,563	1,312	19.1	90	232	(61.2)	6,791	6,435	5.5
482	411	17.3	596	496	20.2	108	128	(15.6)	2,856	2,674	6.8
44	31	41.9	97	84	15.5	—	3	*	174	252	(31.0)
526	442	19.0	693	580	19.5	108	131	(17.6)	3,030	2,926	3.6
445	359	24.0	870	732	18.9	(18)	101	*	3,761	3,509	7.2
2	2	—	125	181	(30.9)	3	(2)	*	240	316	(24.1)
443	357	24.1	745	551	35.2	(21)	103	*	3,521	3,193	10.3
161	130	23.8	271	200	35.5	(122)	(124)	1.6	1,167	1,001	16.6
\$ 282	\$ 227	24.2	\$ 474	\$ 351	35.0	\$ 101	\$ 227	(55.5)	\$ 2,354	\$ 2,192	7.4
\$ 1,508	\$ 1,568	(3.8)%	\$ 3,647	\$ 3,315	10.0%	\$ 135	\$ 159	(15.1)%	\$ 44,501	\$ 41,761	6.6%
681	642	6.1	—	—	—	63	92	(31.5)	28,706	27,543	4.2
442	380	16.3	—	—	—	4	8	(50.0)	20,927	16,517	26.7
2,412	2,295	5.1	8,417	7,846	7.3	45	49	(8.2)	45,991	43,653	5.4
5,043	4,885	3.2	12,064	11,161	8.1	247	308	(19.8)	140,125	129,474	8.2
1,376	874	57.4	2,375	1,986	19.6	1	(1)	*	7,188	6,297	14.1
484	323	49.8	1,111	940	18.2	—	8	*	3,044	2,488	22.3
7,466	6,638	12.5	16,882	14,818	13.9	50,182	51,435	(2.4)	211,222	199,390	5.9
3,649	3,527	3.5	295	137	*	153	58	*	28,893	28,784	.4
2,376	2,482	(4.3)	—	—	—	1	8	(87.5)	23,238	23,085	.7
5,527	5,430	1.8	19	15	26.7	33	15	*	32,883	35,838	(8.2)
2,487	1,035	*	3	—	*	2,239	3,170	(29.4)	35,687	32,625	9.4
14,039	12,474	12.5	317	152	*	2,426	3,251	(25.4)	120,701	120,332	.3
2,351	1,671	40.7	4,557	3,941	15.6	1,547	2,459	(37.1)	20,353	19,812	2.7

Noninterest expense decreased \$90 million in the second quarter and \$23 million in the first six months of 2006, compared with the same periods of 2005. The decreases in noninterest expense were driven by lower debt prepayment expense and the elimination of MSR impairment or reparation due to the adoption of SFAS 156 in the first quarter of 2006.

The provision for credit losses for this business unit represents the residual aggregate of the net credit losses allocated to the reportable business units and the Company's recorded provision determined in accordance with accounting principles generally accepted in the United States. Refer to the "Corporate Risk Profile" section for further information on the provision for credit losses, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Income taxes are assessed to each line of business at a managerial tax rate of 36.4 percent with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Treasury and Corporate Support. The consolidated effective tax rate of the Company was 32.8 percent and 32.7 percent in the second quarter and first six months of 2006, respectively, compared with 28.0 percent and 31.0 percent in the same periods of 2005, respectively. The second quarter of 2005 included a \$94 million reduction in income tax expense related to the resolution of federal income tax examinations covering substantially all of the Company's legal entities for the years 2000 through 2002.

### CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions, which are integral to

understanding the Company's financial statements. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Those policies considered to be critical accounting policies relate to the allowance for credit losses, MSRs, goodwill and other intangibles and income taxes. Management has discussed the development and the selection of critical accounting policies with the Company's Audit Committee. These accounting policies are discussed in detail in "Management's Discussion and Analysis — Critical Accounting Policies" and the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Refer to Note 2 of the Notes to Consolidated Financial Statements for discussion of the change in accounting for MSRs implemented in the first quarter of 2006.

### CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

During the most recently completed fiscal quarter, there was no change made in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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# U.S. Bancorp

## Consolidated Balance Sheet

(Dollars in Millions)	June 30, 2006	December 31, 2005
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks .....	\$ 7,234	\$ 8,004
Investment securities		
Held-to-maturity (fair value \$101 and \$113, respectively) .....	98	109
Available-for-sale .....	38,364	39,659
Loans held for sale .....	2,589	1,686
Loans		
Commercial .....	45,369	42,942
Commercial real estate .....	28,562	28,463
Residential mortgages .....	21,063	20,730
Retail .....	46,388	45,671
Total loans .....	141,382	137,806
Less allowance for loan losses .....	(2,039)	(2,041)
Net loans .....	139,343	135,765
Premises and equipment .....	1,817	1,841
Goodwill .....	7,283	7,005
Other intangible assets .....	3,158	2,874
Other assets .....	13,519	12,522
Total assets .....	<u>\$213,405</u>	<u>\$209,465</u>
<b>Liabilities and Shareholders' Equity</b>		
Deposits		
Noninterest-bearing .....	\$ 30,730	\$ 32,214
Interest-bearing .....	69,302	70,024
Time deposits greater than \$100,000 .....	22,687	22,471
Total deposits .....	122,719	124,709
Short-term borrowings .....	20,570	20,200
Long-term debt .....	41,952	37,069
Other liabilities .....	7,749	7,401
Total liabilities .....	192,990	189,379
Shareholders' equity		
Preferred stock, par value \$1.00 a share (liquidation preference of \$25,000 per share) authorized: 50,000,000 shares; issued and outstanding: 6/30/06 — 40,000 shares .....	1,000	—
Common stock, par value \$0.01 a share — authorized: 4,000,000,000 shares; issued: 6/30/06 and 12/31/05 — 1,972,643,007 shares .....	20	20
Capital surplus .....	5,789	5,907
Retained earnings .....	20,164	19,001
Less cost of common stock in treasury: 6/30/06 — 189,672,491 shares; 12/31/05 — 157,689,004 shares .....	(5,421)	(4,413)
Other comprehensive income .....	(1,137)	(429)
Total shareholders' equity .....	<u>20,415</u>	<u>20,086</u>
Total liabilities and shareholders' equity .....	<u>\$213,405</u>	<u>\$209,465</u>

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Income

(Dollars and Shares in Millions, Except Per Share Data) (Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Interest Income</b>				
Loans	\$2,449	\$2,027	\$4,781	\$3,938
Loans held for sale	33	24	59	45
Investment securities	500	486	990	962
Other interest income	36	28	79	55
Total interest income	3,018	2,565	5,909	5,000
<b>Interest Expense</b>				
Deposits	578	361	1,081	669
Short-term borrowings	270	143	540	255
Long-term debt	484	307	887	578
Total interest expense	1,332	811	2,508	1,502
Net interest income	1,686	1,754	3,401	3,498
Provision for credit losses	125	144	240	316
Net interest income after provision for credit losses	1,561	1,610	3,161	3,182
<b>Noninterest Income</b>				
Credit and debit card revenue	202	177	384	331
Corporate payment products revenue	139	120	266	227
ATM processing services	61	57	120	104
Merchant processing services	253	198	466	376
Trust and investment management fees	314	253	611	500
Deposit service charges	264	234	496	444
Treasury management fees	116	117	223	224
Commercial products revenue	107	100	211	196
Mortgage banking revenue	75	110	99	212
Investment products fees and commissions	42	39	80	78
Securities gains (losses), net	3	1	3	(58)
Other	179	135	410	289
Total noninterest income	1,755	1,541	3,369	2,923
<b>Noninterest Expense</b>				
Compensation	627	612	1,260	1,179
Employee benefits	123	108	256	224
Net occupancy and equipment	161	159	326	313
Professional services	41	39	76	75
Marketing and business development	58	67	98	110
Technology and communications	127	113	244	219
Postage, printing and supplies	66	63	132	126
Other intangibles	89	181	174	252
Debt prepayment	11	54	11	54
Other	227	199	453	374
Total noninterest expense	1,530	1,595	3,030	2,926
Income before income taxes	1,786	1,556	3,500	3,179
Applicable income taxes	585	435	1,146	987
Net income	\$1,201	\$1,121	\$2,354	\$2,192
Net income applicable to common equity	\$1,184	\$1,121	\$2,337	\$2,192
Earnings per common share	\$ .66	\$ .61	\$ 1.30	\$ 1.19
Diluted earnings per common share	\$ .66	\$ .60	\$ 1.29	\$ 1.17
Dividends declared per common share	\$ .33	\$ .30	\$ .66	\$ .60
Average common shares outstanding	1,781	1,833	1,791	1,842
Average diluted common shares outstanding	1,805	1,857	1,816	1,869

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Shareholders' Equity

(Dollars and Shares in Millions) (Unaudited)	Common Shares Outstanding	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Other Comprehensive Income	Total Shareholders' Equity
<b>Balance December 31, 2004</b> .....	1,858	\$ —	\$20	\$5,902	\$16,758	\$(3,125)	\$ (16)	\$19,539
Net income .....					2,192			2,192
Unrealized gain on securities available for sale .....							246	246
Unrealized loss on derivatives .....							(56)	(56)
Foreign currency translation adjustment .....							3	3
Realized loss on derivatives .....							(90)	(90)
Reclassification adjustment for losses realized in net income .....							104	104
Income taxes .....							(78)	(78)
Total comprehensive income .....								2,321
Cash dividends declared on common stock .....					(1,101)			(1,101)
Issuance of common and treasury stock .....	9			(51)		236		185
Purchase of treasury stock .....	(38)					(1,092)		(1,092)
Stock option and restricted stock grants .....				51				51
Shares reserved to meet deferred compensation obligations .....				1		(3)		(2)
<b>Balance June 30, 2005</b> .....	1,829	\$ —	\$20	\$5,903	\$17,849	\$(3,984)	\$ 113	\$19,901
<b>Balance December 31, 2005</b> .....	1,815	\$ —	\$20	\$5,907	\$19,001	\$(4,413)	\$ (429)	\$20,086
Change in accounting principle .....					4			4
Net income .....					2,354			2,354
Unrealized loss on securities available for sale .....							(1,105)	(1,105)
Unrealized gain on derivatives .....							153	153
Foreign currency translation adjustment .....							4	4
Realized loss on derivatives .....							(199)	(199)
Reclassification adjustment for losses realized in net income .....							6	6
Income taxes .....							433	433
Total comprehensive income .....								1,646
Cash dividends declared:								
Preferred .....					(17)			(17)
Common .....					(1,178)			(1,178)
Issuance of common and treasury stock .....	18			(79)		533		454
Purchase of treasury stock .....	(50)					(1,538)		(1,538)
Stock option and restricted stock grants .....				12				12
Shares reserved to meet deferred compensation obligations .....				1		(3)		(2)
Issuance of preferred stock .....		1,000		(52)				948
<b>Balance June 30, 2006</b> .....	1,783	\$ 1,000	\$20	\$5,789	\$20,164	\$(5,421)	\$(1,137)	\$20,415

See Notes to Consolidated Financial Statements.

# U.S. Bancorp

## Consolidated Statement of Cash Flows

(Dollars in Millions) (Unaudited)	Six Months Ended June 30,	
	2006	2005
<b>Operating Activities</b>		
Net cash provided by operating activities .....	\$ 1,861	\$ 1,813
<b>Investing Activities</b>		
Proceeds from sales of available-for-sale investment securities .....	859	2,992
Proceeds from maturities of investment securities .....	2,573	5,011
Purchases of investment securities .....	(3,649)	(7,637)
Net (increase) decrease in loans outstanding .....	(3,217)	(6,182)
Proceeds from sales of loans .....	1,089	849
Purchases of loans .....	(1,563)	(1,814)
Other, net .....	(736)	(1,394)
Net cash used in investing activities .....	(4,644)	(8,175)
<b>Financing Activities</b>		
Net increase (decrease) in deposits .....	(1,990)	1,082
Net increase (decrease) in short-term borrowings .....	370	7,350
Principal payments or redemption of long-term debt .....	(2,384)	(6,472)
Proceeds from issuance of long-term debt .....	7,538	6,558
Proceeds from issuance of preferred stock .....	948	—
Proceeds from issuance of common stock .....	383	153
Repurchase of common stock .....	(1,528)	(1,149)
Cash dividends paid on common stock .....	(1,188)	(1,111)
Net cash provided by financing activities .....	2,149	6,411
Change in cash and cash equivalents .....	(634)	49
Cash and cash equivalents at beginning of period .....	8,202	6,537
Cash and cash equivalents at end of period .....	\$ 7,568	\$ 6,586

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

(Unaudited)

## Note 1 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States. In the opinion of management of U.S. Bancorp (the “Company”), all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. For further information, refer to the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting policies for the lines of business are generally the same as those used in preparation of the consolidated financial statements with respect to activities specifically attributable to each business line. However, the preparation of business line results requires management to establish methodologies to allocate funding costs and benefits, expenses and other financial elements to each line of business. Table 11 “Line of Business Financial Performance” provides details of segment results. This information is incorporated by reference into these Notes to Consolidated Financial Statements.

## Note 2 Accounting Changes

**Accounting for Servicing of Financial Assets** In March 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 156, “Accounting for Servicing of Financial Assets” (“SFAS 156”), that amends accounting and reporting standards for servicing assets and liabilities under Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. Specifically, SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. For subsequent measurement purposes, SFAS 156 permits an entity to choose to measure servicing assets and liabilities either based on fair value or lower of cost or market (“LOCOM”). The Company elected to adopt SFAS 156 effective January 1, 2006, utilizing the fair value measurement option for residential mortgage servicing rights (“MSRs”) and continuing the LOCOM method for all other servicing assets and liabilities. Adopting the fair value measurement method resulted in the Company recording a cumulative-effect accounting adjustment to increase beginning retained earnings by \$4 million (net of tax). Approximately \$3 million represented the difference between the fair value and the carrying amount of the Company’s MSRs as of January 1, 2006, and the additional \$1 million represented the reclassification of unrealized gains in accumulated other comprehensive income at adoption, for certain available-for-sale securities reclassified to trading securities upon the adoption of the provisions of this statement. Additional information regarding MSRs is disclosed in Note 5 in the Notes to Consolidated Financial Statements.

**Other-Than-Temporary Impairment** In November 2005, the FASB issued FASB Staff Position FAS 115-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” (“FSP 115-1”), effective for the Company beginning on January 1, 2006. FSP 115-1 provides clarification on when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. FSP 115-1 also requires certain disclosures for unrealized losses that have not been recognized as other-than-temporary impairments. The adoption of FSP 115-1 did not have a material impact on the Company’s financial statements.

**Stock-Based Compensation** In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (“SFAS 123R”), “Share-Based Payment”, a revision of Statement of Financial Accounting Standards No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation.” SFAS 123R requires companies to measure the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award. This statement eliminates the use of the alternative intrinsic value method of accounting that was allowed when SFAS 123 was originally issued. The provisions of this statement were effective for the Company beginning on January 1, 2006. The Company adopted SFAS 123R using the modified retrospective method. Because the Company retroactively adopted the fair value method in 2003, the impact of expensing stock-based awards was

already recorded in the Company's financial results. In conjunction with the adoption of SFAS 123R, the Company recognized \$13 million of incremental stock-based compensation expense due to certain provisions that require immediate recognition of the value of stock awards to employees that meet retirement status, despite their continued active employment. Upon adoption, the Company also changed its method of expensing all new awards from an accelerated to a straight-line attribution method. This methodology change for expensing stock awards is expected to reduce expenses in 2006 by approximately \$33 million (\$20 million after tax).

**Accounting for Uncertainty in Income Taxes** In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes," effective for the Company beginning on January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company is currently assessing the impact of this guidance on its financial statements.

### Note 3 Investment Securities

The detail of the amortized cost, gross unrealized holding gains and losses, and fair value of held-to-maturity and available-for-sale securities was as follows:

(Dollars in Millions)	June 30, 2006				December 31, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Held-to-maturity (a)</b>								
Mortgage-backed securities . . . . .	\$ 8	\$ —	\$ —	\$ 8	\$ 8	\$ —	\$ —	\$ 8
Obligations of state and political subdivisions . . . . .	73	4	(1)	76	84	5	(1)	88
Other debt securities . . . . .	17	—	—	17	17	—	—	17
Total held-to-maturity securities . . . . .	\$ 98	\$ 4	\$ (1)	\$ 101	\$ 109	\$ 5	\$ (1)	\$ 113
<b>Available-for-sale (b)</b>								
U.S. Treasury and agencies . . . . .	\$ 508	\$ 1	\$ (15)	\$ 494	\$ 496	\$ 2	\$ (9)	\$ 489
Mortgage-backed securities . . . . .	35,853	48	(1,738)	34,163	38,161	86	(733)	37,514
Asset-backed securities . . . . .	8	—	—	8	12	—	—	12
Obligations of state and political subdivisions . . . . .	2,801	1	(64)	2,738	640	3	(6)	637
Other securities and investments . . . . .	961	5	(5)	961	1,012	2	(7)	1,007
Total available-for-sale securities . . . . .	\$40,131	\$ 55	\$ (1,822)	\$38,364	\$40,321	\$ 93	\$ (755)	\$39,659

(a) Held-to-maturity securities are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

(b) Available-for-sale securities are carried at fair value with unrealized net gains or losses reported within other comprehensive income in shareholders' equity.

The weighted-average maturity of the available-for-sale investment securities was 7.4 years at June 30, 2006, compared with 6.1 years at December 31, 2005. The corresponding weighted-average yields were 5.17 percent and 4.89 percent, respectively. The weighted-average maturity of the held-to-maturity investment securities was 8.4 years at June 30, 2006, compared with 7.2 years at December 31, 2005. The corresponding weighted-average yields were 6.37 percent and 6.44 percent, respectively.

Securities carried at \$33.9 billion at June 30, 2006, and \$36.9 billion at December 31, 2005, were pledged to secure public, private and trust deposits, repurchase agreements and for other purposes required by law. Securities sold under agreements to repurchase, where the buyer/lender has the right to sell or pledge the securities, were collateralized by securities with an amortized cost of \$6.7 billion at June 30, 2006, and \$10.9 billion at December 31, 2005, respectively.

The following table provides information as to the amount of interest income from taxable and non-taxable investment securities:

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Taxable . . . . .	\$475	\$482	\$951	\$955
Non-taxable . . . . .	25	4	39	7
Total interest income from investment securities . . . . .	\$500	\$486	\$990	\$962

The following table provides information as to the amount of gross gains and losses realized through the sales of available-for-sale investment securities:

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Realized gains .....	\$ 4	\$ 1	\$ 4	\$ 12
Realized losses .....	(1)	—	(1)	(70)
Net realized gains (losses) .....	\$ 3	\$ 1	\$ 3	\$(58)
Income tax (benefit) on realized gains (losses) .....	\$ 1	\$—	\$ 1	\$(22)

For amortized cost, fair value and yield by maturity date of held-to-maturity and available-for-sale securities outstanding at June 30, 2006, refer to Table 4 included in Management's Discussion and Analysis which is incorporated by reference into these Notes to Consolidated Financial Statements.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired which have been in a continuous unrealized loss position at June 30, 2006:

(Dollars in Millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Held-to-maturity</b>						
Mortgage-backed securities .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of state and political subdivisions .....	16	(1)	2	—	18	(1)
Other debt securities .....	—	—	—	—	—	—
Total .....	\$ 16	\$ (1)	\$ 2	\$ —	\$ 18	\$ (1)
<b>Available-for-sale</b>						
U.S. Treasury and agencies .....	\$ 447	\$ (15)	\$ 5	\$ —	\$ 452	\$ (15)
Mortgage-backed securities .....	15,938	(768)	15,149	(970)	31,087	(1,738)
Asset-backed securities .....	8	—	—	—	8	—
Obligations of state and political subdivisions .....	2,615	(63)	28	(1)	2,643	(64)
Other securities and investments .....	86	—	312	(5)	398	(5)
Total .....	\$19,094	\$ (846)	\$15,494	\$ (976)	\$34,588	\$ (1,822)

The Company's rationale, by investment category, for determining if investments with unrealized losses that are not deemed to be other-than-temporarily impaired at June 30, 2006, was as follows:

#### **Held-to-Maturity**

**Obligations of state and political subdivisions** During the second quarter of 2006, the Company recorded an impairment of \$1 million on a municipal security with a balance of \$2 million as it was determined that the revenues supporting the security may not be sufficient to make all contractual principal and interest payments. The remaining unrealized losses were caused by increases in interest rates. The issuers of these securities do not have the contractual ability to pay off these securities at less than par. The Company has the ability and intent to hold these investments until maturity which is consistent with their designation as held-to-maturity. Consequently, the Company does not consider these investments to be other-than-temporarily impaired as of June 30, 2006.

#### **Available-for-Sale**

**U.S. Treasury and agencies** The unrealized losses on these securities were caused solely by rising interest rates since credit quality is not an issue for these types of securities. None of these securities can be paid off for less than par at maturity or any earlier call date. Because the Company has the ability and intent to hold these securities until a recovery to adjusted book value, they are not considered to be other-than-temporarily impaired as of June 30, 2006.

**Mortgage-backed securities** Substantially all of these securities were issued by GNMA, FNMA and FHLMC, and the remainder were privately issued with high investment grade credit ratings. The unrealized losses for these securities were caused by rising interest rates over the past few years. Given the high credit quality of these investments, the Company fully expects to receive all contractual cash flows. Because the Company has the ability and intent to hold

these securities until a recovery to adjusted book value, they are not considered to be other-than-temporarily impaired as of June 30, 2006.

**Obligations of state and political subdivisions** The unrealized losses were caused by rising interest rates. These municipal securities are investment grade credit quality with substantially all rated AAA. None of these securities can be paid off for less than par at maturity or any earlier call date. Because the Company has the ability and intent to hold these securities until a recovery to adjusted book value, they are not considered to be other-than-temporarily impaired as of June 30, 2006.

**Other securities and investments** The securities in this category consist primarily of debt issued by major U.S. banks. The losses are a result of a modest widening of credit spreads since the initial purchase dates. Given the high credit quality of these issuers, the Company expects to receive all contractual cash flows. None of these securities can be paid off for less than par at maturity or any earlier call date. Because the Company has the ability and intent to hold these securities until a recovery to adjusted book value, they are not considered to be other-than-temporarily impaired as of June 30, 2006.

## Note 4 Loans

The composition of the loan portfolio was as follows:

(Dollars in Millions)	June 30, 2006		December 31, 2005	
	Amount	Percent of Total	Amount	Percent of Total
<b>Commercial</b>				
Commercial .....	\$ 40,055	28.3%	\$ 37,844	27.5%
Lease financing .....	5,314	3.8	5,098	3.7
Total commercial .....	45,369	32.1	42,942	31.2
<b>Commercial real estate</b>				
Commercial mortgages .....	19,966	14.1	20,272	14.7
Construction and development .....	8,596	6.1	8,191	6.0
Total commercial real estate .....	28,562	20.2	28,463	20.7
<b>Residential mortgages</b>				
Residential mortgages .....	14,902	10.5	14,538	10.5
Home equity loans, first liens .....	6,161	4.4	6,192	4.5
Total residential mortgages .....	21,063	14.9	20,730	15.0
<b>Retail</b>				
Credit card .....	7,432	5.3	7,137	5.2
Retail leasing .....	7,092	5.0	7,338	5.3
Home equity and second mortgages .....	15,124	10.7	14,979	10.9
Other retail				
Revolving credit .....	2,505	1.8	2,504	1.8
Installment .....	4,090	2.9	3,582	2.6
Automobile .....	8,257	5.8	8,112	5.9
Student .....	1,888	1.3	2,019	1.4
Total other retail .....	16,740	11.8	16,217	11.7
Total retail .....	46,388	32.8	45,671	33.1
Total loans .....	\$141,382	100.0%	\$137,806	100.0%

Loans are presented net of unearned interest and deferred fees and costs, which amounted to \$1.3 billion at June 30, 2006, and December 31, 2005.

## Note 5 Mortgage Servicing Rights

The Company's portfolio of residential mortgages serviced for others was \$76.4 billion and \$69.0 billion at June 30, 2006, and December 31, 2005, respectively. Effective January 1, 2006, the Company early adopted SFAS 156 and elected the fair value measurement method for MSR's. The fair value measurement method requires MSR's to be recorded initially at fair value, if practicable, and at each subsequent reporting date. In accordance with SFAS 156 the changes in fair value are to be recorded in earnings in the period in which they occur. Prior to the adoption of SFAS 156, the initial carrying value of MSR's was amortized in proportion to, and over the period of, estimated net servicing revenue and recorded in noninterest expense as amortization of intangible assets.

Beginning in March 2006, the Company began entering into U.S. Treasury futures and options on U.S. Treasury futures contracts to offset the change in fair value of the MSR's. Changes in fair value related to the MSR's and the futures and options contracts, as well as, servicing and other related fees are recorded in mortgage banking revenue. The Company recorded \$80 million and \$156 million of servicing and other related fees revenue in the second quarter and first six months of 2006, respectively. Changes in fair value of capitalized MSR's are summarized as follows:

(Dollars in Millions)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Balance at beginning of period .....	\$1,228	\$1,123
Rights purchased .....	1	47
Rights capitalized .....	99	170
Changes in fair value of MSR's:		
Due to change in valuation assumptions (a) .....	38	71
Other changes in fair value (b) .....	(43)	(88)
Balance at end of period .....	\$1,323	\$1,323

(a) Principally reflects changes in discount rates and prepayment speed assumptions, primarily arising from interest rate changes.

(b) Primarily represents changes due to collection/realization of expected cash flows over time.

The Company determines fair value by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys, and independent third party appraisals. Risks inherent in the MSR's valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. In March 2006, the Company implemented a program utilizing futures and options contracts to mitigate the valuation risk. The estimated sensitivity to changes in interest rates of the fair value of the MSR's portfolio and the related derivative instruments at June 30, 2006, was as follows:

(Dollars in Millions)	Down Scenario		Up Scenario	
	50 bps	25 bps	25 bps	50 bps
Net fair value .....	\$(22)	\$(6)	\$(2)	\$(15)

The fair value of MSR's and its sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of the distinct portfolios of Mortgage Revenue Bond Programs ("MRBP"), government-insured mortgages and conventional mortgages. The MRBP division specializes in servicing loans made under state and local housing authority programs. These programs provide mortgages to low-income and moderate-income borrowers and are generally government-insured programs with a favorable rate subsidy, down payment and/or closing cost assistance. Mortgage loans originated as part of government agency and state loan programs tend to experience slower prepayment speeds and better cash flows than conventional mortgage loans. The servicing portfolios are predominantly comprised of fixed-rate agency loans (FNMA, FHLMC, GNMA, FHLB and various housing agencies) with limited adjustable-rate or jumbo mortgage loans.

A summary of the Company's MSRs and related characteristics by portfolio as of June 30, 2006, was as follows:

(Dollars in Millions)	MRBP	Government	Conventional	Total
Servicing portfolio	\$7,034	\$8,603	\$60,738	\$76,375
Fair market value	\$ 138	\$ 163	\$ 1,022	\$ 1,323
Value (bps)*	196	189	168	173
Weighted-average servicing fees (bps)	41	44	35	37
Multiple (value/servicing fees)	4.78	4.30	4.80	4.68
Weighted-average note rate	5.94%	6.07%	5.77%	5.82%
Age (in years)	3.6	2.9	2.3	2.5
Expected life (in years)	7.8	7.3	7.9	7.8
Discount rate	11.5%	11.3%	10.6%	10.8%

\* Value is calculated as fair market value divided by the servicing portfolio.

## Note 6 Earnings Per Common Share

The components of earnings per common share were:

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	\$1,201	\$1,121	\$2,354	\$2,192
Preferred dividends	(17)	—	(17)	—
Net income applicable to common equity	\$1,184	\$1,121	\$2,337	\$2,192
Average common shares outstanding	1,781	1,833	1,791	1,842
Net effect of the assumed purchase of stock based on the treasury stock method for options and stock plans	24	24	25	27
Average diluted common shares outstanding	1,805	1,857	1,816	1,869
Earnings per common share	\$ .66	\$ .61	\$ 1.30	\$ 1.19
Diluted earnings per common share	\$ .66	\$ .60	\$ 1.29	\$ 1.17

Options to purchase 4 million and 38 million common shares for the three months ended June 30, 2006 and 2005, respectively, and 4 million and 17 million common shares for the six months ended June 30, 2006 and 2005, respectively, were outstanding but not included in the computation of diluted earnings per common share because they were antidilutive.

## Note 7 Employee Benefits

The components of net periodic benefit cost (income) for the Company's retirement plans were:

(Dollars in Millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Plans		Post Retirement Medical Plans		Pension Plans		Post Retirement Medical Plans	
	2006	2005	2006	2005	2006	2005	2006	2005
Components of net periodic benefit cost (income)								
Service cost	\$ 18	\$ 16	\$ 1	\$ 1	\$ 36	\$ 32	\$ 2	\$ 2
Interest cost	29	28	4	4	59	56	7	8
Expected return on plan assets	(47)	(48)	—	(1)	(95)	(97)	—	(1)
Net amortization and deferral	(1)	(1)	—	—	(3)	(3)	—	—
Recognized actuarial loss	22	14	—	1	45	29	—	1
Net periodic benefit cost (income)	\$ 21	\$ 9	\$ 5	\$ 5	\$ 42	\$ 17	\$ 9	\$ 10

## Note 8 Stock-based Compensation

As part of its employee and director compensation programs, the Company may grant certain stock awards under the provisions of the existing stock compensation plans, including plans assumed in acquisitions. The plans provide for grants of options to purchase shares of common stock at a fixed price equal to the fair value of the underlying stock at the date of grant. Option grants are generally exercisable up to ten years from the date of grant. In addition, the plans provide for grants of shares of common stock or stock units that are subject to restriction on transfer prior to vesting. Most stock awards vest over three to five years and are subject to forfeiture if certain vesting requirements are not met. At June 30, 2006, there were 13 million shares (subject to adjustment for forfeitures) available for grant under various plans.

The following is a summary of stock options outstanding and exercised under various stock options plans of the Company:

	2006				2005			
	Stock Options/Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)	Stock Options/Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Three Months Ended June 30,								
<b>Stock option plans</b>								
Number outstanding at beginning of period	128,459,228	\$25.08			140,842,422	\$24.03		
Granted	678,767	31.16			909,032	29.13		
Exercised	(9,440,942)	22.52			(3,131,672)	20.70		
Cancelled (a)	(982,713)	27.52			(639,170)	24.44		
Number outstanding at end of period (b)	118,714,340	\$25.30	5.2	\$663	137,980,612	\$24.14	5.5	\$930
Exercisable at end of period	88,362,876	\$24.32	4.0	\$580	100,363,009	\$23.74	4.6	\$717

	2006				2005			
	Stock Options/Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)	Stock Options/Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Six Months Ended June 30,								
<b>Stock option plans</b>								
Number outstanding at beginning of period	125,983,461	\$24.38			134,727,285	\$23.41		
Granted	12,000,109	30.05			12,191,833	30.15		
Exercised	(17,801,534)	21.82			(7,397,036)	20.72		
Cancelled (a)	(1,467,696)	27.41			(1,541,470)	24.46		
Number outstanding at end of period (b)	118,714,340	\$25.30	5.2	\$663	137,980,612	\$24.14	5.5	\$930
Exercisable at end of period	88,362,876	\$24.32	4.0	\$580	100,363,009	\$23.74	4.6	\$717

(a) Options cancelled includes both non-vested (i.e., forfeitures) and vested options.

(b) Outstanding options include stock-based awards that may be forfeited in future periods, however the impact of the estimated forfeitures is reflected in compensation expense.

The weighted-average grant-date fair value of options granted was \$6.00 and \$6.35 for the three months ended June 30, 2006 and 2005, respectively, and was \$6.32 and \$6.68 for the six months ended June 30, 2006 and 2005, respectively. The total intrinsic value of options exercised was \$82 million and \$27 million for the three months ended June 30, 2006 and 2005, respectively, and was \$162 million and \$68 million for the six months ended June 30, 2006 and 2005, respectively. The total fair value of option shares vested was \$9 million and \$8 million for the three months ended June 30, 2006 and 2005, respectively, and was \$49 million and \$53 million for the six months ended June 30, 2006 and 2005, respectively.

Cash received from option exercises under all share-based payment arrangements was \$212 million and \$65 million for the three months ended June 30, 2006 and 2005, respectively, and was \$388 million and \$153 million for the six months ended June 30, 2006 and 2005, respectively. The tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements totaled \$31 million and \$10 million for the three months ended June 30, 2006 and 2005, respectively, and totaled \$61 million and \$25 million for the six

months ended June 30, 2006 and 2005, respectively. To satisfy share option exercises, the Company predominantly uses treasury stock.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model, requiring the use of subjective assumptions. The following table includes the assumptions utilized by the Company:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Risk-free interest rate .....	4.3%	3.6%	4.3%	3.6%
Dividend yield .....	4.0%	3.5%	4.0%	3.5%
Stock volatility factor .....	.28	.29	.28	.29
Expected life of options (in years) .....	5.4	5.4	5.4	5.4

Expected stock volatility is based on several factors including the historical volatility of the Company's stock, implied volatility determined from traded options and other factors. The Company uses historical data to estimate option exercises and employee terminations to estimate the expected life of options. The risk-free interest rate for the expected life of the options is based on the U.S. Treasury yield curve in effect on the date of grant. The expected dividend yield is based on the Company's expected dividend yield over the life of the options.

Additional information regarding stock options outstanding as of June 30, 2006, is as follows:

Range of Exercise Prices	Options Outstanding			Exercisable Options	
	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$5.05 - \$10.00 .....	31,469	.7	\$ 8.05	31,469	\$ 8.05
\$10.01 - \$15.00 .....	739,936	2.3	12.14	739,936	12.14
\$15.01 - \$20.00 .....	16,047,010	4.7	18.80	15,745,797	18.79
\$20.01 - \$25.00 .....	44,171,250	4.7	22.35	38,473,296	22.47
\$25.01 - \$30.00 .....	42,701,863	5.4	29.02	26,756,634	28.71
\$30.01 - \$35.00 .....	14,746,285	6.6	30.93	6,339,217	31.74
\$35.01 - \$36.95 .....	276,527	.9	35.89	276,527	35.89
	118,714,340	5.2	\$25.30	88,362,876	\$24.32

A summary of the status of the Company's restricted shares of stock is presented below:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006		2005		2006		2005	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
<b>Nonvested shares</b>								
Number outstanding at beginning of period ...	3,037,250	\$27.26	2,817,001	\$26.45	2,644,171	\$26.73	2,265,625	\$25.06
Granted .....	138,758	31.04	82,276	29.14	990,250	30.13	990,618	30.04
Cancelled/vested .....	(57,189)	26.33	(50,540)	26.62	(480,581)	28.89	(385,956)	26.78
Forfeited .....	(100,505)	29.19	(22,321)	29.27	(135,526)	29.25	(43,871)	29.04
Number outstanding at end of period .....	3,018,314	\$27.39	2,826,416	\$26.51	3,018,314	\$27.39	2,826,416	\$26.51

The total fair value of shares vested was \$1 million and \$2 million for the three months ended June 30, 2006 and 2005, respectively, and was \$14 million and \$12 million for the six months ended June 30, 2006 and 2005, respectively.

Stock-based compensation expense was \$22 million and \$38 million for the three months ended June 30, 2006 and 2005, respectively, and was \$58 million and \$72 million for the six months ended June 30, 2006 and 2005, respectively. At the time employee stock options expire, are exercised or cancelled, the Company determines the tax benefit associated with the stock award and under certain circumstances may be required to recognize an adjustment to tax expense. On an after-tax basis, stock-based compensation was \$14 million and \$24 million for three months ended June 30, 2006, and 2005, respectively, and was \$36 million and \$45 million for the six months ended June 30, 2006 and 2005, respectively. As of June 30, 2006, there was \$140 million of total unrecognized

compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 3 years.

## Note 9 Income Taxes

The components of income tax expense were:

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Federal</b>				
Current .....	\$ 631	\$321	\$1,212	\$744
Deferred .....	(154)	64	(236)	128
Federal income tax .....	477	385	976	872
<b>State</b>				
Current .....	120	44	188	104
Deferred .....	(12)	6	(18)	11
State income tax .....	108	50	170	115
Total income tax provision.....	\$ 585	\$435	\$1,146	\$987

A reconciliation of expected income tax expense at the federal statutory rate of 35 percent to the Company's applicable income tax expense follows:

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Tax at statutory rate (35 percent) .....	\$625	\$545	\$1,225	\$1,113
State income tax, at statutory rates, net of federal tax benefit .....	70	33	110	75
Tax effect of				
Tax credits .....	(61)	(43)	(119)	(83)
Tax-exempt income .....	(23)	(17)	(43)	(31)
Resolution of federal and state income tax examinations .....	—	(94)	—	(94)
Other items .....	(26)	11	(27)	7
Applicable income taxes .....	\$585	\$435	\$1,146	\$ 987

Included in the second quarter of 2005 was a \$94 million reduction in income tax expense related to the resolution of federal income tax examinations covering substantially all of the Company's legal entities for the years 2000 through 2002. The resolution of these cycles was the result of negotiations held between the Company and representatives of the Internal Revenue Service throughout the examinations. The resolution of these matters and the taxing authorities' acceptance of submitted claims and tax return adjustments resulted in the reduction of estimated income tax liabilities.

The Company's net deferred tax liability was \$950 million at June 30, 2006, and \$1,615 million at December 31, 2005.

## Note 10 Guarantees and Contingent Liabilities

The following table is a summary of the guarantees and contingent liabilities of the Company at June 30, 2006:

(Dollars in Millions)	Carrying Amount	Maximum Potential Future Payments
Standby letters of credit . . . . .	\$77	\$10,689
Third-party borrowing arrangements . . . . .	6	449
Securities lending indemnifications . . . . .	—	15,461
Asset sales (a) . . . . .	8	671
Merchant processing . . . . .	58	63,104
Other guarantees . . . . .	21	3,134
Other contingent liabilities . . . . .	13	1,854

(a) The maximum potential future payments does not include loans sales where the Company provides standard representations and warranties to the buyer against losses related to loan underwriting documentation. For these types of loans sales, the maximum potential future payments are not readily determinable because the Company's obligation under these agreements depends upon the occurrence of future events.

The Company, through its subsidiaries, provides merchant processing services. Under the rules of credit card associations, a merchant processor retains a contingent liability for credit card transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In this situation, the transaction is "charged-back" to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant, it bears the loss for the amount of the refund paid to the cardholder.

The Company currently processes card transactions for several airlines in the United States. In the event of liquidation of these airlines, the Company could become financially liable for refunding tickets purchased through the credit card associations under the charge-back provisions. Charge-back risk related to an airline is evaluated in a manner similar to credit risk assessments and, as such, merchant processing contracts consider the potential risk of default. At June 30, 2006, the value of airline tickets purchased to be delivered at a future date was \$3.1 billion, and the Company held collateral of \$2.0 billion in escrow deposits, letters of credit and liens on various assets.

The Company is subject to various litigation, investigations and legal and administrative cases and proceedings that arise in the ordinary course of its businesses. Due to their complex nature, it may be years before some matters are resolved. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, the Company believes that the aggregate amount of such liabilities will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

For information on the nature of the Company's guarantees and contingent liabilities, please refer to Note 23 in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

# U.S. Bancorp

## Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)

For the Three Months Ended June 30,  
2006 2005

(Dollars in Millions) (Unaudited)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
<b>Assets</b>							
Investment securities .....	\$ 40,087	\$ 513	5.12%	\$ 42,341	\$ 488	4.61%	(5.3)%
Loans held for sale .....	2,062	33	6.37	1,697	24	5.71	21.5
Loans (b)							
Commercial .....	45,070	734	6.53	42,517	614	5.79	6.0
Commercial real estate .....	28,795	528	7.36	27,582	437	6.36	4.4
Residential mortgages .....	20,868	302	5.80	17,198	239	5.56	21.3
Retail .....	46,130	891	7.75	43,978	742	6.77	4.9
Total loans .....	140,863	2,455	6.99	131,275	2,032	6.21	7.3
Other earning assets .....	1,878	36	7.60	1,417	28	7.94	32.5
Total earning assets .....	184,890	3,037	6.58	176,730	2,572	5.83	4.6
Allowance for loan losses .....	(2,051)			(2,125)			3.5
Unrealized gain (loss) on available-for-sale securities .....	(1,431)			(224)			*
Other assets .....	30,999			27,437			13.0
Total assets .....	<u>\$212,407</u>			<u>\$201,818</u>			5.2
<b>Liabilities and Shareholders' Equity</b>							
Noninterest-bearing deposits .....	\$ 28,949			\$ 29,148			(.7)
Interest-bearing deposits							
Interest checking .....	23,333	50	.87	23,024	33	.57	1.3
Money market savings .....	26,981	138	2.05	29,563	79	1.07	(8.7)
Savings accounts .....	5,720	5	.33	5,886	4	.24	(2.8)
Time certificates of deposit less than \$100,000 .....	13,689	126	3.68	13,152	94	2.86	4.1
Time deposits greater than \$100,000 .....	22,561	259	4.61	20,459	151	2.97	10.3
Total interest-bearing deposits .....	92,284	578	2.51	92,084	361	1.57	.2
Short-term borrowings .....	22,246	278	5.01	17,013	143	3.37	30.8
Long-term debt .....	41,225	484	4.71	36,973	307	3.33	11.5
Total interest-bearing liabilities .....	155,755	1,340	3.45	146,070	811	2.23	6.6
Other liabilities .....	7,147			6,780			5.4
Shareholders' equity							
Preferred equity .....	1,000			—			*
Common equity .....	19,556			19,820			(1.3)
Total shareholders' equity .....	20,556			19,820			3.7
Total liabilities and shareholders' equity .....	<u>\$212,407</u>			<u>\$201,818</u>			5.2%
Net interest income .....		<u>\$1,697</u>			<u>\$1,761</u>		
Gross interest margin .....			<u>3.13%</u>			<u>3.60%</u>	
Gross interest margin without taxable-equivalent increments .....			<u>3.11</u>			<u>3.58</u>	
<b>Percent of Earning Assets</b>							
Interest income .....			6.58%			5.83%	
Interest expense .....			2.90			1.84	
Net interest margin .....			<u>3.68%</u>			<u>3.99%</u>	
Net interest margin without taxable-equivalent increments .....			3.66%			3.97%	

\* Not meaningful

(a) Interest and rates are presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.

(b) Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

# U.S. Bancorp

## Consolidated Daily Average Balance Sheet and Related Yields and Rates (a)

For the Six Months Ended June 30,  
2006 2005

(Dollars in Millions) (Unaudited)	Average Balances	Interest	Yields and Rates	Average Balances	Interest	Yields and Rates	% Change Average Balances
<b>Assets</b>							
Investment securities .....	\$ 39,885	\$1,009	5.06%	\$ 42,576	\$ 965	4.53%	(6.3)%
Loans held for sale .....	1,866	59	6.32	1,564	45	5.76	19.3
Loans (b)							
Commercial .....	44,501	1,424	6.44	41,761	1,191	5.74	6.6
Commercial real estate .....	28,706	1,025	7.20	27,543	850	6.22	4.2
Residential mortgages .....	20,927	596	5.71	16,517	457	5.55	26.7
Retail .....	45,991	1,748	7.66	43,653	1,451	6.70	5.4
Total loans .....	140,125	4,793	6.89	129,474	3,949	6.14	8.2
Other earning assets .....	2,124	79	7.46	1,408	55	7.91	50.9
Total earning assets .....	184,000	5,940	6.49	175,022	5,014	5.76	5.1
Allowance for loan losses .....	(2,055)			(2,120)			3.1
Unrealized gain (loss) on available-for-sale securities .....	(1,117)			(242)			*
Other assets .....	30,394			26,730			13.7
Total assets .....	<u>\$211,222</u>			<u>\$199,390</u>			5.9
<b>Liabilities and Shareholders' Equity</b>							
Noninterest-bearing deposits .....	\$ 28,893			\$ 28,784			.4
Interest-bearing deposits							
Interest checking .....	23,238	95	.82	23,085	64	.56	.7
Money market savings .....	27,178	254	1.88	29,911	149	1.00	(9.1)
Savings accounts .....	5,705	9	.31	5,927	8	.28	(3.7)
Time certificates of deposit less than \$100,000 .....	13,598	240	3.55	13,066	180	2.78	4.1
Time deposits greater than \$100,000 .....	22,089	483	4.41	19,559	268	2.77	12.9
Total interest-bearing deposits .....	91,808	1,081	2.37	91,548	669	1.47	.3
Short-term borrowings .....	23,295	550	4.77	16,313	255	3.15	42.8
Long-term debt .....	39,735	887	4.49	36,211	578	3.21	9.7
Total interest-bearing liabilities .....	154,838	2,518	3.28	144,072	1,502	2.10	7.5
Other liabilities .....	7,138			6,722			6.2
Shareholders' equity							
Preferred equity .....	530			—			*
Common equity .....	19,823			19,812			.1
Total shareholders' equity .....	20,353			19,812			2.7
Total liabilities and shareholders' equity .....	<u>\$211,222</u>			<u>\$199,390</u>			5.9%
Net interest income .....		<u>\$3,422</u>			<u>\$3,512</u>		
Gross interest margin .....			<u>3.21%</u>			<u>3.66%</u>	
Gross interest margin without taxable-equivalent increments .....			<u>3.19</u>			<u>3.64</u>	
<b>Percent of Earning Assets</b>							
Interest income .....			6.49%			5.76%	
Interest expense .....			2.75			1.73	
Net interest margin .....			<u>3.74%</u>			<u>4.03%</u>	
Net interest margin without taxable-equivalent increments .....			3.72%			4.01%	

\* Not meaningful

(a) Interest and rates are presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.

(b) Interest income and rates on loans include loan fees. Nonaccrual loans are included in average loan balances.

## Part II — Other Information

**Item 1A. Risk Factors** — There are a number of factors that may adversely affect the Company’s business, financial results or stock price. Refer to “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, for discussion of these risks. The risks described in the Company’s Annual Report on Form 10-K are not the only risks facing the Company. Additional risks that the Company currently does not know about or currently views as immaterial may also impair the Company’s business or adversely impact its financial results or stock price.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** — Refer to the “Capital Management” section within Management’s Discussion and Analysis in Part I for information regarding shares repurchased by the Company during the second quarter of 2006.

**Item 4. Submission of Matters to a Vote of Security Holders** — The information contained in Part II, Item 4 of the Company’s Form 10-Q for the quarterly period ended March 31, 2006, is incorporated herein by reference.

### **Item 6. Exhibits**

- 10.1 Terms of Jerry A. Grundhofer’s service as Non-Executive Chairman of the Board (incorporated by reference to Item 1 of the Company’s Current Report on Form 8-K filed July 20, 2006).
- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURE**

Pursuant to the requirements 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.

U.S. BANCORP

By: /s/ TERRANCE R. DOLAN

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Terrance R. Dolan

Executive Vice President and Controller

(Chief Accounting Officer and Duly Authorized Officer)

DATE: August 9, 2006

## EXHIBIT 12

### Computation of Ratio of Earnings to Fixed Charges

(Dollars in Millions)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
<b>Earnings</b>		
1. Net income .....	\$1,201	\$2,354
2. Applicable income taxes .....	585	1,146
3. Income before income taxes (1 + 2) .....	<u>\$1,786</u>	<u>\$3,500</u>
4. Fixed charges:		
a. Interest expense excluding interest on deposits .....	\$ 754	\$1,427
b. Portion of rents representative of interest and amortization of debt expense .....	17	35
c. Fixed charges excluding interest on deposits (4a + 4b) .....	771	1,462
d. Interest on deposits .....	578	1,081
e. Fixed charges including interest on deposits (4c + 4d) .....	<u>\$1,349</u>	<u>\$2,543</u>
5. Amortization of interest capitalized .....	\$ —	\$ —
6. Earnings excluding interest on deposits (3 + 4c + 5) .....	2,557	4,962
7. Earnings including interest on deposits (3 + 4e + 5) .....	3,135	6,043
8. Fixed charges excluding interest on deposits (4c) .....	771	1,462
9. Fixed charges including interest on deposits (4e) .....	1,349	2,543
<b>Ratio of Earnings to Fixed Charges</b>		
10. Excluding interest on deposits (line 6/line 8) .....	3.32	3.39
11. Including interest on deposits (line 7/line 9) .....	<u>2.32</u>	<u>2.38</u>

EXHIBIT 31.1

CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Jerry A. Grundhofer, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JERRY A. GRUNDHOFER

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Jerry A. Grundhofer  
*Chief Executive Officer*

Dated: August 9, 2006

EXHIBIT 31.2

CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, David M. Moffett, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of U.S. Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID M. MOFFETT

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David M. Moffett  
*Chief Financial Officer*

Dated: August 9, 2006

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Chief Executive Officer and Chief Financial Officer of U.S. Bancorp, a Delaware corporation (the “Company”), do hereby certify that:

- (1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JERRY A. GRUNDHOFER

Jerry A. Grundhofer  
*Chief Executive Officer*

/s/ DAVID M. MOFFETT

David M. Moffett  
*Chief Financial Officer*

Dated: August 9, 2006

## Corporate Information

### Executive Offices

U.S. Bancorp  
800 Nicollet Mall  
Minneapolis, MN 55402

### Common Stock Transfer Agent and Registrar

Mellon Investor Services acts as our transfer agent and registrar, dividend paying agent and dividend reinvestment plan administrator, and maintains all shareholder records for the corporation. Inquiries related to shareholder records, stock transfers, changes of ownership, lost stock certificates, changes of address and dividend payment should be directed to the transfer agent at:

Mellon Investor Services  
P.O. Box 3315  
South Hackensack, NJ 07606-1915  
Phone: 888-778-1311 or 201-680-4000  
Internet: melloninvestor.com

For Registered or Certified Mail:  
Mellon Investor Services  
480 Washington Boulevard  
Jersey City, NJ 07310

Telephone representatives are available weekdays from 8:00 a.m. to 6:00 p.m. Central Time, and automated support is available 24 hours a day, 7 days a week. Specific information about your account is available on Mellon's internet site by clicking on For Investors and then the Investor ServiceDirect® link.

### Independent Auditors

Ernst & Young LLP serves as the independent auditors of U.S. Bancorp's financial statements.

### Common Stock Listing and Trading

U.S. Bancorp common stock is listed and traded on the New York Stock Exchange under the ticker symbol USB.

### Dividends and Reinvestment Plan

U.S. Bancorp currently pays quarterly dividends on our common stock on or about the 15th day of January, April, July and October, subject to approval by our Board of Directors.

U.S. Bancorp shareholders can choose to participate in a plan that provides automatic reinvestment of dividends and/or optional cash purchase of additional shares of U.S. Bancorp common stock. For more information, please contact our transfer agent, Mellon Investor Services. See above.

### Investment Community Contacts

Judith T. Murphy  
Senior Vice President, Investor Relations  
judith.murphy@usbank.com  
Phone: 612-303-0783 or 866-775-9668

### Financial Information

U.S. Bancorp news and financial results are available through our web site and by mail.

*Web site.* For information about U.S. Bancorp, including news, financial results, annual reports and other documents filed with the Securities and Exchange Commission, access our home page on the Internet at [usbank.com](http://usbank.com), click on About U.S. Bancorp, then Investor/Shareholder Information.

*Mail.* At your request, we will mail to you our quarterly earnings, news releases, quarterly financial data reported on Form 10-Q and additional copies of our annual reports. Please contact:

U.S. Bancorp Investor Relations  
800 Nicollet Mall  
Minneapolis, Minnesota 55402  
investorrelations@usbank.com  
Phone: 612-303-0799 or 866-775-9668

### Media Requests

Steven W. Dale  
Senior Vice President, Media Relations  
steve.dale@usbank.com  
Phone: 612-303-0784

### Privacy

U.S. Bancorp is committed to respecting the privacy of our customers and safeguarding the financial and personal information provided to us. To learn more about the U.S. Bancorp commitment to protecting privacy, visit [usbank.com](http://usbank.com) and click on Privacy Pledge.

### Code of Ethics

U.S. Bancorp places the highest importance on honesty and integrity. Each year, every U.S. Bancorp employee certifies compliance with the letter and spirit of our Code of Ethics and Business Conduct, the guiding ethical standards of our organization. For details about our Code of Ethics and Business Conduct, visit [usbank.com](http://usbank.com) and click on About U.S. Bancorp, then Ethics at U.S. Bank.

### Diversity

U.S. Bancorp and our subsidiaries are committed to developing and maintaining a workplace that reflects the diversity of the communities we serve. We support a work environment where individual differences are valued and respected and where each individual who shares the fundamental values of the company has an opportunity to contribute and grow based on individual merit.

### Equal Employment Opportunity/Affirmative Action

U.S. Bancorp and our subsidiaries are committed to providing Equal Employment Opportunity to all employees and applicants for employment. In keeping with this commitment, employment decisions are made based upon performance, skill and ability, not race, color, religion, national origin or ancestry, gender, age, disability, veteran status, sexual orientation or any other factors protected by law. The corporation complies with municipal, state and federal fair employment laws, including regulations applying to federal contractors.

U.S. Bancorp, including each of our subsidiaries, is an Equal Opportunity Employer committed to creating a diverse workforce.