US BANCORP \DE\
Form 10-K
February 26, 2007

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2006 annual report and form 10-kp o s i t i v e r e s u l t sstrategic acquisitions return to shareholdersfinancial performanceenhanced customer data protectiontop banking teamagency ratingscredit quality expanded distributioninvestments in our business european payments expansion new products

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Positive results

Come in various forms sustainable earnings, geographic expansion, technological advances, customer service, competitive advantages, shareholder return, innovative products and dedicated employees. we delivered positive results on many fronts in 2006.

CORPORATE PROFILE

U.S. Bancorp, with total assets of $219 billion at year-end 2006, is a diversified financial holding company serving more than 14.2 million customers. U.S. Bancorp is the parent company of U.S. Bank, the sixth largest commercial bank in the U.S. U.S. Bank operates 2,472 banking offices in 24 states, primarily in the lower and upper Midwest and throughout the Southwest and Northwest, and conducts financial business in all 50 states.

Our company s diverse business mix of products and services is provided through four major lines of business: Wholesale Banking, Payment Services, Wealth Management and Consumer Banking. Detailed information about these businesses can be found throughout this report. U.S. Bancorp is headquartered in Minneapolis, MN. U.S. Bancorp employs approximately 50,000 people.

Visit U.S. Bancorp online at usbank.com

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FINANCIALS

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995. This report contains forward-looking statements. 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, expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. 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. These and other risks that may cause actual results to differ from expectations are described throughout this report, which you should read carefully, including the sections entitled Corporate Risk Profile beginning on page 32 and Risk Factors beginning on page 111. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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corporate overview

u.s. bancorp is positioned for the current economic environment, as well as future challenges and opportunities. we are leaders in the industry in key financial measurements, and we continue to invest in high-value businesses and to implement strategies that enhance cross-selling, increase customer loyalty, streamline product development and expand distribution.

T H E B U S I N E S S E S A N DCANADAS C O P E O F U. S. B A N C O R P S P E C I A L I Z E D S E R V I C E S / O F F I C E S Commercial Banking Consumer Banking Corporate Banking Commercial Real Estate Payment Services Wealth Management Technology and Operations ServicesPayment Processing Nationally and in Europe**M E T R O P O L I TA N A N D C O M M U N I T Y B A N K I N GUNITED STATES**2,472 banking offices in 24 states **NORWAY24 H O U R B A N K I N GSWEDEN**ATMs: 4,841 **DENMARK**Internet: usbank.com**IRELANDUNITED** Telephone: 800-USBANKS**KINGDOM NETHERLANDSBELGIUMPOLANDGERMANYAUSTRIA FRANCEITALY SPAIN**2**U.S. BANCORP**

U.S . BANCORP AT A GLANCE

Ranking	**U.S. Bank is 6th largest U.S. commercial bank**
Asset size	**$219 billion**
Deposits	**$125 billion**
Loans	**$144 billion**
Earnings per share *(diluted)*	**$2.61**
Return on average assets	**2.23%**
Return on average common equity	**23.6%**
Efficiency ratio	**45.4%**
Tangible efficiency ratio	**42.8%**
Customers	**14.2 million**
Primary banking region	**24 states**
Bank branches	**2,472**
ATMs	**4,841**
NYSE symbol	**USB**
At year-end 2006	

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REVENUE MIX BY BUSINESS LINE

WHOLESALE BANKING

U.S. Bancorp provides expertise, resources, prompt decision-making and commitment to partnerships that make us a leader in Corporate, Commercial and Commercial Real Estate Banking. From real-time cash flow management to working capital financing to equipment leasing and more, our complete set of traditional and online services is seamlessly integrated with the needs of our customers.

PAYMENT SERVICES

U.S. Bancorp is a world leader in payment services. Our Multi Service Aviation and Voyager fleet fuel and maintenance programs set the standard in the industry. PowerTrack® provides an enterprise payment solution for both public and private sectors. Our subsidiary NOVA Information Systems, Inc. is among the top payment processors in the world and growing, and we are among the largest ATM processors and credit, debit and gift card issuers in the industry.

WEALTH MANAGEMENT

U.S. Bancorp provides personalized, professional guidance to help individuals, businesses and municipalities build, manage, preserve and protect wealth through financial planning, private banking and personal trust, corporate and institutional trust and custody services, insurance and investment management. From retirement plans and health savings accounts to escrows and estate planning, our clients receive quality products and exceptional service.

CONSUMER BANKING

Convenience, customer service, accessibility and a comprehensive set of quality products make U.S. Bank the first choice of nearly 13 million consumers across our primary 24-state footprint. From basic checking and savings to flexible credit and loan options to mortgage, insurance and investment products, we streamline personal and small business banking to make banking straightforward and trouble-free.

INDUSTRY LEADING PERFORMANCE METRICS

Full year 2006

	USB	Peer Median	USB Rank
Return on Average Assets	**2.23%**	1.38%	1
Return on Average Common Equity	**23.6%**	15.1%	1
Efficiency Ratio	**45.4%**	58.6%	1
Tangible Efficiency Ratio	**42.8%**	57.3%	1

Peer Banks: BAC, BBT, CMA, FITB, KEY, NCC, PNC (excludes BlackRock/MLIM transaction), RF, STI, USB, WB, WFC and WM

Efficiency ratio is 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.

Tangible efficiency ratio is computed as the efficiency ratio excluding intangible amortization expense.

DBRS =	A A
Fitch =	A A-
Moody s =	A a2
S& P =	A A

SAFETY AND SOUNDNESS

The senior unsecured debt ratings established for U.S. Bancorp by Moody s, Standard and Poor s, Fitch, and Dominion Bond Rating Service reflect the rating agencies recognition of the strong, consistent financial performance of the company and the quality of the balance sheet.

REPUTATION AND PERFORMANCE

U.S. Bancorp is the top performing large bank in the country, according to *Bank Director* magazine s 2006 Bank Performance Scorecard. The large-bank ranking included 25 banks and thrifts with total assets of $50 billion or more and was based on publicly available data over four linked quarters Q3 and Q4 2005 and Q1 and Q2 2006.

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selectedfinancialhighlightsDILUTEDEARNINGSDIVIDENDSD CLAREDNETINCOMEPERCOMMONSHAREPERCOMM
3904,75161.22304,48942.14,167.218.2020.3,73393.11855.2,5003,1681.5065..701780.00002030405060203040506020304050
DIVIDENDPAYOUTRATIO(InPercents)(InPercents)(InPercents)2.424606.23..52321.22224.17.21.72.2522.3.5099.3.19472.1
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5.840.97.8365.32.50255000020304050602030405060203040506AVERAGESHAREHOLDERS TOTALRISK-BASEDAVE
(DollarsinMillions)(DollarsinMillions)(InPercents)220,00025,000156.131.4135..6187,630191,593203,198213,51219,95320,71

(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.

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financial summary

Year Ended December 31 (Dollars and Shares in Millions, Except Per Share Data)	2006	2005	2004	2006 v 2005	2005 v 2004
Total net revenue (taxable-equivalent basis)	$ 13,636	$ 13,133	$ 12,659	3.8%	3.7%
Noninterest expense	6,180	5,863	5,785	5.4	1.3
Provision for credit losses	544	666	669		
Income taxes and taxable-equivalent adjustments	2,161	2,115	2,038		
Net Income	$ 4,751	$ 4,489	$ 4,167	5.8	7.7
Net Income applicable to common equity	$ 4,703	$ 4,489	$ 4,167	4.8	7.7
PER COMMON SHARE					
Earnings per share	$ 2.64	$ 2.45	$ 2.21	7.8	10.9
Diluted earnings per share	2.61	2.42	2.18	7.9	11.0
Dividends declared per share	1.39	1.23	1.02	13.0	20.6
Book value per share	11.44	11.07	10.52	3.3	5.2
Market value per share	36.19	29.89	31.32	21.1	(4.6)
Average common shares outstanding	1,778	1,831	1,887	(2.9)	(3.0)
Average diluted common shares outstanding	1,804	1,857	1,913	(2.9)	(2.9)
FINANCIAL RATIOS					
Return on average assets	2.23%	2.21%	2.17%		
Return on average common equity	23.6	22.5	21.4		
Net interest margin (taxable-equivalent basis)	3.65	3.97	4.25		
Efficiency ratio (a)	45.4	44.3	45.3		
AVERAGE BALANCES					
Loans	$ 140,601	$ 131,610	$ 120,670	6.8%	9.1%
Investment securities	39,961	42,103	43,009	(5.1)	(2.1)
Earning assets	186,231	178,425	168,123	4.4	6.1
Assets	213,512	203,198	191,593	5.1	6.1
Deposits	120,589	121,001	116,222	(.3)	4.1
Total shareholders equity	20,710	19,953	19,459	3.8	2.5
PERIOD END BALANCES					
Loans	$ 143,597	$ 136,462	$ 124,941	5.2%	9.2%
Allowance for credit losses	2,256	2,251	2,269	.2	(.8)
Investment securities	40,117	39,768	41,481	.9	(4.1)
Assets	219,232	209,465	195,104	4.7	7.4
Deposits	124,882	124,709	120,741	.1	3.3
Shareholders equity	21,197	20,086	19,539	5.5	2.8
Regulatory capital ratios					
Tier 1 capital	8.8%	8.2%	8.6%		
Total risk-based capital	12.6	12.5	13.1		

Leverage	8.2	7.6	7.9
Tangible common equity	5.5	5.9	6.4

(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.

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letter to shareholders

the year 2006 was a year of challenge, change and achievement for u.s. bancorp, and one of positive results.

FELLOW SHAREHOLDERS:

Achieving record net income

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

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

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

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

Preparing U.S. Bancorp for future growth

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

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

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

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

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T OTA L S H A R E H O L D E R R E T U R N *(A $100 investment in U.S. Bancorp in 1996 was worth $487 at year-end 2006)*$500 **$487**U.S. Bancorp400**$276**300S&P Commercial Bank Index **$224** 200S&P 500 Index1009697 98 99 00 01 02 03 04 05 **06**

RETURNING 80% OF EARNINGS TO SHAREHOLDERS*(Earnings)**59*100%***63 80 40*** 50***53504620***ReturntoShareholdersShareRepurchase RetentionDividend Payout 0**06**04 05 **06**

New board member

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

Managing U.S. Bancorp to create shareholder value

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

The dividend action continues 35 consecutive years of increasing our dividend. Since 1993, our dividend has shown a compound annual growth rate of 20.8 percent, ranking number one among our peer banking companies. U.S. Bancorp has paid a dividend for 144 consecutive years.

We value and appreciate your investment in U.S. Bancorp. From the hiring and development of talented, dedicated employees to providing outstanding customer service to our strategic direction and our everyday management, we work to increase the value of your investment in this company. It s the reason we come to work each day.

Sincerely,

Richard K. Davis
President and Chief Executive Officer
U.S. Bancorp

Jerry A. Grundhofer
Chairman of the Board
U.S. Bancorp
February 26, 2007

Richard Davis succeeds Jerry Grundhofer as CEO, December 12, 2006.

In accordance with an established succession plan, and a move designed to sustain our company s growth and profitability, on December 12, 2006, Richard K. Davis succeeded Jerry A. Grundhofer as CEO of U.S. Bancorp. Richard will retain his title of president in addition to his new title of chief executive officer. Jerry will remain with U.S. Bancorp as chairman of the board until December 31, 2007. Richard had been president and chief operating officer of U.S. Bancorp since October 2004, and Jerry had been chief executive officer since 1993.

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wholesale banking
continued demand for corporate and commercial loans in 2006, stabilized net interest margin and exceptional leveraging of cross - sell opportunities position us well .

We believe that key indicators in the commercial sector are positive; however, challenges of competitive credit and deposit pricing continued. The credit profile of our company remains excellent as we maintain our disciplined underwriting standards and focus on quality loans. Loans in the Wholesale Banking business line grew five percent in 2006. Although we may experience some increase in charge-offs in coming quarters, they should remain manageable. If interest rates hold steady, we would expect to see continued loan growth and profitability.

During the year, we took a number of actions to further strengthen our commercial and corporate banking industry position. We added new expertise at the senior levels in Corporate Banking and Commercial Real Estate and in our food and agribusiness specialized lending division. We opened new Commercial Real Estate offices in Atlanta, Boston, Houston and Philadelphia, bringing our number of CRE offices to 31 across the country, and opened a new foreign exchange office in Los Angeles, joining those already in Milwaukee, Minneapolis, Portland, St. Louis and Seattle. We launched a number of new products and expanded several existing services to provide customer efficiency, fraud protection, treasury management, and market entry into electronic records management.

KEY BUSINESS UNITS

Middle Market Commercial Banking
Commercial Real Estate
National Corporate Banking
Correspondent Banking
Dealer Commercial Services
Community Banking
Equipment Finance
Foreign Exchange
Government Banking
International Banking
Treasury Management
Small Business Equipment Finance
Small Business Administration
(SBA) Division
Title Industry Banking

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FULL FINANCIAL PARTNERSHIPS

Extending credit is a critical component of Wholesale Banking, but not the only one. Our financial partnership with our business customers extends beyond lending to deposit and payment solutions, employee services, asset management, and trust services, just to name a few. But our most important contribution to our customers businesses is our expertise - in traditional, as well as very specialized services.

Among those specialized areas is Government Banking. U.S. Bank has provided financial services to federal, state, city, county, special districts and authorities for more than a century and currently has more than 5,000 government relationships across the country.

Other areas of specialized expertise include energy industries, food and agribusiness, healthcare, not-for-profit companies, broker dealer businesses and international trade finance. Whatever the market, the industry, the size or financial goals of business, U.S. Bank makes it our business to generate mutually positive results.

December 2006

U.S. Bank launches Image Cash Letter allowing financial institutions to electronically clear their cash letters.

Throughout 2006

U.S. Bank opens commercial real estate offices in Atlanta, Boston, Houston and Philadelphia.

July 2006

U.S. Bank Equipment Finance expands specialty services to `the material handling and construction industries, launching their Distribution Finance Group.

June 2006

U.S. Bank expands Positive Pay fraud protection service giving check writers payee name verification, which detects altered payee names on deposited items and at the teller line.

January 2006

U.S. Bank opens Los Angeles Foreign Exchange office providing competitive prices, expertise and customized foreign exchange hedging solutions.

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payment services

this growing business is a strong driver of non - interest income and plays a crucial part in our plans for the future. our expertise, strategic expansion and superlative processing capabilities are commanding competitive advantages.

Our Payment Services line of business is a primary contributor to our growing percentage of fee-based income and contributes nearly a quarter of our total revenue. In a challenging rate environment such as we have seen in 2006, our fee-based revenue is a bold illustration of the benefits of a diversified business mix. U.S. Bancorp has the skill, scale and infrastructure to make the most of its payment and processing services.

We have invested heavily in the technology to support our delivery systems and our expansion of Payment Services. Payment Services is supported through a rich portfolio of products and processing solutions; retail payment solutions for debit, credit and gift cards; ATM processing and servicing; and specialized programs for financial institutions, the U.S. government, and hospitality and healthcare providers.

Payment Services is a business based on economies of scale, and we have been an active acquirer in this area, making 30 strategic payments business acquisitions since the year 2000. Each has been a purposeful expansion of distribution or product enhancement, and each added to scale and efficiency, solidifying our leadership position in the industry.

NOVA Information Systems, Inc., a subsidiary of U.S. Bancorp, is the nation s third-largest payments processor. U.S. Bank is the processor for over 10 percent of all ATMs in the United States.

KEY BUSINESS UNITS

Corporate Payment Systems

Merchant Payment Services

NOVA Information Systems, Inc.

Retail Payment Solutions: Debit, Credit,
Specialty Cards and Gift Cards

Transactions Services:
ATM and Debit Processing and Services

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PAYMENT SERVICES DRIVES SUCCESS AND REVENUE

U.S. Bank is now the world s leading provider of freight audit and payments through PowerTrack®, our patented, electronic business-to-business payment network. PowerTrack processes more than 25 million electronic documents annually with more than 25,000 registered users worldwide. In 2006, the acquisition of Schneider Payment Services added approximately $7 billion in freight payments to the portfolio. In 2006, PowerTrack was named among the top 100 innovators by *Supply & Demand Chain Executive* magazine.

U.S. Bank s Voyager Fleet Card program is a universal fuel and maintenance card accepted at more than 200,000 locations throughout the U.S. The program provides a single source for all card issuance, billing, payment and customer service, and it services more than 1.6 million vehicles nationwide.

In June, NOVA Information Systems European affiliate, euroConex, was awarded the title of Merchant Acquirer of the Year at the Cards International Global Awards. Judges cited the company s international expansion and high cross-border competence. There are currently more than 200,000 merchants in the euroConex portfolio. Combined, NOVA and its affiliates First Horizon Merchant Services, euroConex and Elan provide global merchant processing services to financial institutions and clients in the United States, Canada and Europe, serving approximately 850,000 merchants worldwide.

December 2006
U.S. Bancorp establishes bank, Elavon Financial Services, in Dublin, Ireland, to support credit card merchant acquiring and processing in Europe.

November 2006
U.S. Bank launches contactless credit card pilot in Denver.

October 2006
NOVA and Discover Financial Services sign merchant processing agreement.

October 2006
U.S. Bank Canada acquires CIBC s Visa® purchasing and corporate credit card portfolio.

July 2006
U.S. Bank issues 10 millionth gift card and remains the largest Visa gift card issuer in the United States.

June 2006
NOVA s European affiliate, euroConex, named merchant acquirer of the year at Cards International global award event.

June 2006
U.S. Bank joins MoneyPass ATM network, gives customers surcharge-free access to more than 12,000 ATMs.

January 2006
NOVA buys First Horizon Merchant Services business; adds 53,000 merchants and expands hospitality portfolio.

January 2006
U.S. Bank Voyager acquires Advent Business Systems, Inc.

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wealth management

a commitment to superior performance and customer service enhances our full range of investment management services and the services of our fast - growing corporate and institutional trust and custody businesses .

U.S. Bancorp is a major provider of wealth management services to individuals, businesses, corporations and non-profit organizations. With more than 100 years experience in these fields, we bring the long-term commitment and expertise that our clients demand for today s complex and changing financial environment.

The sophisticated wealth management expertise and solutions of The Private Client Group provide the foundation to support the unique situations and needs of high net worth individuals, families and professional service corporations for whom we develop customized strategies to build, manage and protect their wealth.

We have been steadily expanding our Corporate Trust and Institutional Trust and Custody businesses, both by growing our existing client base and by strategic acquisitions. We are a leading provider of the full spectrum of corporate trust products and services required by corporations and municipalities for raising capital. We are also experts in trust, custody, retirement and health savings account solutions for corporations, businesses, public and non-profit entities.

Through FAF Advisors, we have been significantly increasing distribution of our proprietary mutual fund family, First American Funds, to third party retail mutual-fund distributors, retirement plans, and key accounts. FAF Advisors serves as the investment advisor to First American Funds, as well as to a wide variety of institutional clients.

KEY BUSINESS UNITS

The Private Client Group
Corporate Trust Services
Institutional Trust & Custody
FAF Advisors, Inc.
U.S. Bancorp Fund Services, LLC
U.S. Bancorp Investments, Inc.
U.S. Bancorp Insurance Services, LLC

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GROWING SHARE AND SCALE

U.S. Bancorp invests heavily in technology, new products and distribution channels to support the development and delivery of our services to customers. We also invest in the acquisition of high-value, high-return businesses that will increase performance, revenue and earnings. This is especially true in our Corporate and Institutional Trust businesses, where recent business acquisitions have solidified our leadership position, diversified our geographic presence and increased market share and scale.

In 2006, we continued these strategic acquisitions, enhancing our Corporate Trust and Institutional Trust and Custody capabilities through acquisitions from Wachovia, SunTrust and LaSalle Bank, the United States subsidiary of ABN AMRO Bank N.V. These acquisitions complement our existing businesses, and are following the same successful integration and customer retention paths as our 12 previous similar acquisitions over the past few years.

U.S. Bank is now the number one ABF/MBS/CDO trustee in the nation, number two for new tax-exempt debt issuances, number four as corporate debt trustee, and number nine in global assets under custody. Upon completion of our most recent acquisition of the Municipal Trustee business from LaSalle, U.S. Bank s corporate trust division will have $2.5 trillion in assets under administration, 725,000 bondholders and more than 86,500 client issuances.

November 2006
U.S. Bank signs agreement to purchase the municipal bond trustee business of LaSalle Bank, will acquire 2,875 new client issuances and $30 billion in assets under administration.

September 2006
U.S. Bank acquires the municipal and corporate bond trustee business from SunTrust Banks, adding 4,700 new client issuances and $123 billion in assets under administration.

June 2006
U.S. Bancorp Fund Services is awarded top-rated status by *Global Custodian* for all core services and scores highest in the survey for customer service.

May 2006
The Private Client Group introduces customized Separately Managed Accounts, offering a wide range of money managers and investment choices.

March 2006
U.S. Bancorp Asset Management changes its name to FAF Advisors to more closely align company with its First American Funds family of mutual funds and facilitate continued expansion.

January 2006
U.S. Bank completes acquisition of the corporate trust and institutional custody businesses from Wachovia.

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consumer banking

our continued investment in convenience, customer service and accessibility helps make u.s. bank the bank of choice among consumers. in 2006, we made two small but high - value acquisitions and launched power banking.

In 2006 we made two strategic acquisitions that expanded our market share in the western part of our franchise - purchasing 23 new branch locations in western Colorado and Denver and doubling our branch presence in Montana. Together, these transactions expand U.S. Bank s distribution in rapidly growing and demographically attractive markets in western Colorado, add to our base in Denver and boost our Montana franchise significantly.

Reaching a major milestone, we opened our 500th in-store banking office in November. We operate the third-largest in-store branch network in the nation, and our in-store business model has been very successful for us, our customers and our retail partners.

We introduced an innovative online tool for U.S. branch bankers to design custom solutions for our customers. My Choice Banking, currently offered at more than 400 branches, allows customers to make the most advantageous banking choices in the context of their total financial picture, addressing both current and future needs.

In Small Business Banking, we increased SBA loan total by 38 percent in 2006, according to the Small Business Administration (SBA), providing 4,703 SBA guaranteed loans to small businesses, a U.S. Bank record. U.S. Bank ranks second among SBA bank lenders in loan dollar volume.

KEY BUSINESS UNITS

Community Banking
Metropolitan Branch Banking
In-store and Corporate On-site Banking
Small Business Banking
Consumer Lending
24-Hour Banking & Financial Sales
Home Mortgage
Community Development
Workplace and Student Banking

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FORTIFYING POSITIONS OF STRENGTH

U.S. Bank inaugurated its power bank sales and customer service initiative in the St. Louis market in 2006 with plans to roll it out to other key markets over the next several years. The initiative is designed to solidify our leadership position in markets where U.S. Bank is dominant, protecting market share. Key elements of the initiative are more aggressive marketing, extended branch hours, heavier branch staffing, and customer amenities, including children s entertainment areas, coin counters and more.

We have seen good results from the St. Louis launch, and we anticipate the same increased traffic, account opening and elevated customer satisfaction scores in the other targeted markets as well. It s another way we are investing in our Consumer Banking business and enhancing the customer experience at U.S. Bank.

November 2006
U.S. Bank opens 500th in-store branch.

November 2006
U.S. Bancorp to double branch presence in Montana with agreement to acquire United Financial Corp., parent of Heritage Bank.

November 2006
U.S. Bank celebrates one-year anniversary offering MoneyGram global funds transfer at all branches.

September 2006
U.S. Bank completes purchase of Vail Banks, Inc., bringing branch total in Colorado to 135.

April 2006
Longer branch hours, extra staff and special amenities mark power banking introduction in St. Louis.

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building strong communities

u.s. bancorp places a high priority on investing in the communities we serve, communities in which our customers, our employees and our shareholders live and work.

We work to connect directly with the people and the organizations of our communities, not only by providing needed financial services and credit, but also through collaborative investments and efforts through our Community Development divisions. These are focused on affordable housing investments, economic development support, education, arts and culture and community service. It s through these initiatives and investments and our partnerships with local and national organizations that our resources - financial and human - have the best potential to stimulate economic growth and enhance the quality of life.

In addition, more than $20 million is contributed in grants and charitable contributions to thousands of organizations through the U.S. Bancorp Foundation.

Here, we highlight just a few of the hundreds of ways we are involved in our communities.

U.S. BANCORP FOUNDATION 2006 CHARITABLE CONTRIBUTIONS BY PROGRAM AREA

Community Build Day

U.S. Bank is a national co-sponsor of Community Build Day, in partnership with The Financial Services Roundtable, a trade association of 100 of the largest financial services companies in the country. During this annual event, companies and employees volunteer to build, paint, repair and renovate homes in their communities. In 2006, U.S. Bank and our employees participated in 55 Community Build Day projects including 31 building, repairing and remodeling projects, nine running and walking events and various other activities.

Five Star Volunteer Award

U.S. Bank s Five Star Volunteer Award honors employees for their exceptional community service. In 2006, we presented the award to 130 employees in recognition of their time and dedication to their communities. Through this awards program in 2005 and 2006, U.S. Bank contributed $340,000 to various organizations across our corporate footprint. In 2006, employees in 24 states were recognized for their outstanding efforts.

United Way

One of our key partnerships is with United Way. U.S. Bancorp and our employees have a strong history of generous support, leadership and involvement in United Way. Last year, together, pledges by our employees across the company and contributions by the U.S. Bancorp Foundation totaled more than $9.7 million.

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positive results: a closer look

now that you have read some of the highlights of the year 2006 in our lines of business and seen our goals and achievements, take a closer look at the full story of our financial performance in management s discussion and analysis on the following pages.

FINANCIALS

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Management s Discussion and Analysis

OVERVIEW

In 2006, U.S. Bancorp and its subsidiaries (the Company) demonstrated its financial strength and shareholder focus despite a particularly challenging economic environment for the banking industry. While credit quality within the industry continued to be relatively strong, the flat yield curve throughout most of the year, excess liquidity in the markets and competitiveness for credit relationships have created significant pressures on net interest margins for most banks. The Company achieved record earnings in 2006 and grew earnings per common share, on a diluted basis, by 7.9 percent through its focus on organic growth, investing in business initiatives that strengthen its presence and product offerings for customers, and acquiring fee-based businesses with operating scale. This strategic focus over the past several years has created a well diversified business generating strong fee-based revenues that represented over 50 percent of total net revenue in 2006. As a result, the Company s fee-based revenue grew 11.1 percent over 2005, with growth in most product categories. Fee income growth was led by trust and investment management fees and revenues generated by payment processing businesses. In addition, average loans outstanding rose 6.8 percent year-over-year despite very competitive credit pricing. The Company s performance was also driven by the continued strong credit quality of the Company s loan portfolios. During the year nonperforming assets declined 8.9 percent from a year ago and total net charge-offs decreased to .39 percent of average loans outstanding in 2006, compared with .52 percent in 2005. Finally, the Company s efficiency ratio (the ratio of noninterest expense to taxable-equivalent net revenue excluding net securities gains or losses) was 45.4 percent in 2006, compared with 44.3 percent in 2005, and continues to be a leader in the banking industry. The Company s ability to effectively manage its cost structure has provided a strategic advantage in this highly competitive environment. As a result of these factors, the Company achieved a return on average common equity of 23.6 percent in 2006.

The Company s strong performance is also reflected in its capital levels and the favorable credit ratings assigned by various credit rating agencies. Equity capital of the Company continued to be strong at 5.5 percent of tangible assets at December 31, 2006, compared with 5.9 percent at December 31, 2005. The Company s regulatory Tier 1 capital ratio increased to 8.8 percent at December 31, 2006, compared with 8.2 percent at December 31, 2005. In 2006, the Company s credit ratings were upgraded by Standard & Poor s Ratings Services and Dominion Bond Rating Service. Credit ratings assigned by various credit rating agencies reflect the rating agencies recognition of the Company s sector-leading earnings performance and credit risk profile.

In concert with this financial performance, the Company achieved its objective of returning at least 80 percent of earnings to shareholders in the form of dividends and share repurchases by returning 112 percent of 2006 earnings to shareholders. In December 2006, the Company increased its cash dividend resulting in a 21.2 percent increase from the dividend rate of the fourth quarter of 2005. Throughout 2006, the Company continued to repurchase common shares under share repurchase programs announced in December 2004 and August 2006.

In 2007, the Company s financial and strategic objectives are unchanged from those goals that have enabled it to deliver industry leading financial performance. The Company desires to achieve 10 percent long-term growth in earnings per common share and a return on common equity of at least 20 percent. The Company will continue to focus on effectively managing credit quality and maintaining an acceptable level of credit and earnings volatility. The Company intends to achieve these financial objectives by providing high-quality customer service and continuing to make strategic investments in businesses that diversify and generate fee-based revenues, enhance the Company s distribution network or expand its product offerings. Finally, the Company continues to target an 80 percent return of earnings to its shareholders through dividends or shares repurchased.

Earnings Summary The Company reported net income of $4.8 billion in 2006, or $2.61 per diluted common share, compared with $4.5 billion, or $2.42 per diluted common share, in 2005. Return on average assets and return on average common equity were 2.23 percent and 23.6 percent, respectively, in 2006, compared with returns of 2.21 percent and 22.5 percent, respectively, in 2005.

Total net revenue, on a taxable-equivalent basis for 2006 was $503 million (3.8 percent) higher than 2005 despite the adverse impact of rising rates on product margins generally experienced by the banking industry. The increase in net revenue was comprised of a 13.3 percent increase in noninterest income, partially offset by a 4.2 percent decline in net interest income. Noninterest income growth was driven by higher fee-based revenues from organic business

growth, expansion in trust and payment processing businesses, higher trading income, and gains in 2006 from the initial public offering and subsequent sale of the equity interest in a card association and the sale of a 401(k) defined contribution recordkeeping business. These favorable changes in fee-based revenues
were partially offset by lower mortgage banking revenue

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principally 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. In addition, noninterest income included a $120 million favorable change in net securities gains (losses) as compared with 2005. The decline in net interest income reflected growth in average earning assets, more than offset by lower net interest margins. In 2006, average earning assets increased $7.8 billion (4.4 percent), compared with 2005, primarily due to growth in total average loans, partially offset by a decrease in investment securities. The net interest margin in 2006 was 3.65 percent, compared with 3.97 percent in 2005. The year-over-year decline in net interest margin reflected the competitive lending environment and the impact of a flatter yield curve compared to a year ago. 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. These adverse factors impacting the net interest margin were offset somewhat by the margin benefit of net free funds in a rising rate environment and higher loan fees.

Total noninterest expense in 2006 increased $317 million (5.4 percent), compared with 2005, primarily

Table 1 SELECTED FINANCIAL DATA

Year Ended December 31 (Dollars and Shares in Millions, Except Per Share Data)	2006	2005	2004	2003	2002
CONDENSED INCOME STATEMENT					
Net interest income (taxable-equivalent basis) (a)	$ 6,790	$ 7,088	$ 7,140	$ 7,217	$ 6,847
Noninterest income	6,832	6,151	5,624	5,068	4,911
Securities gains (losses), net	14	(106)	(105)	245	300
Total net revenue	13,636	13,133	12,659	12,530	12,058
Noninterest expense	6,180	5,863	5,785	5,597	5,740
Provision for credit losses	544	666	669	1,254	1,349
Income from continuing operations before taxes	6,912	6,604	6,205	5,679	4,969
Taxable-equivalent adjustment	49	33	29	28	33
Applicable income taxes	2,112	2,082	2,009	1,941	1,708
Income from continuing operations	4,751	4,489	4,167	3,710	3,228
Discontinued operations (after-tax)				23	(23)
Cumulative effect of accounting change (after-tax)					(37)
Net income	$ 4,751	$ 4,489	$ 4,167	$ 3,733	$ 3,168
Net income applicable to common equity	$ 4,703	$ 4,489	$ 4,167	$ 3,733	$ 3,168
PER COMMON SHARE					

Earnings per share from continuing operations	$ 2.64	$ 2.45	$ 2.21	$ 1.93	$ 1.68
Diluted earnings per share from continuing operations	2.61	2.42	2.18	1.92	1.68
Earnings per share	2.64	2.45	2.21	1.94	1.65
Diluted earnings per share	2.61	2.42	2.18	1.93	1.65
Dividends declared per share	1.390	1.230	1.020	.855	.780
Book value per share	11.44	11.07	10.52	10.01	9.62
Market value per share	36.19	29.89	31.32	29.78	21.22
Average common shares outstanding	1,778	1,831	1,887	1,924	1,916
Average diluted common shares outstanding	1,804	1,857	1,913	1,936	1,925
FINANCIAL RATIOS					
Return on average assets	2.23%	2.21%	2.17%	1.99%	1.84%
Return on average common equity	23.6	22.5	21.4	19.2	18.3
Net interest margin (taxable-equivalent basis)(a)	3.65	3.97	4.25	4.49	4.65
Efficiency ratio (b)	45.4	44.3	45.3	45.6	48.8
AVERAGE BALANCES					
Loans	$140,601	$131,610	$120,670	$116,937	$113,182
Loans held for sale	3,663	3,290	3,079	5,041	3,915
Investment securities	39,961	42,103	43,009	37,248	28,829
Earning assets	186,231	178,425	168,123	160,808	147,410
Assets	213,512	203,198	191,593	187,630	171,948
Noninterest-bearing deposits	28,755	29,229	29,816	31,715	28,715
Deposits	120,589	121,001	116,222	116,553	105,124
Short-term borrowings	24,422	19,382	14,534	10,503	10,116
Long-term debt	40,357	36,141	35,115	33,663	32,172
Shareholders equity	20,710	19,953	19,459	19,393	17,273
PERIOD END BALANCES					
Loans	$143,597	$136,462	$124,941	$116,811	$114,905
Allowance for credit losses	2,256	2,251	2,269	2,369	2,422
Investment securities	40,117	39,768	41,481	43,334	28,488
Assets	219,232	209,465	195,104	189,471	180,027
Deposits	124,882	124,709	120,741	119,052	115,534
Long-term debt	37,602	37,069	34,739	33,816	31,582
Shareholders equity	21,197	20,086	19,539	19,242	18,436
Regulatory capital ratios					
Tier 1 capital	8.8%	8.2%	8.6%	9.1%	8.0%
Total risk-based capital	12.6	12.5	13.1	13.6	12.4
Leverage	8.2	7.6	7.9	8.0	7.7
Tangible common equity	5.5	5.9	6.4	6.5	5.7

(a) 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.

reflecting incremental operating and business integration costs associated with recent acquisitions, increased pension costs and higher expenses related to certain tax-advantaged investments. This increase was partially offset by lower intangible expense and debt prepayment charges in 2006 compared with a year ago. The decline in intangible expense from 2005 was primarily due to the adoption of SFAS 156. The efficiency ratio was 45.4 percent in 2006, compared with 44.3 percent in 2005.

The provision for credit losses was $544 million for 2006, a decrease of $122 million (18.3 percent) from 2005, principally due to strong credit quality reflected in the relatively low level of nonperforming assets and declining net charge-offs compared with 2005. Net charge-offs were $544 million in 2006, compared with $685 million in 2005. The decline in net charge-offs from a year ago was principally due to the impact of changes in bankruptcy legislation enacted in the fourth quarter of 2005.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $6.8 billion in 2006, $7.1 billion in 2005 and $7.1 billion in 2004. The $298 million decline in net interest income in 2006 reflected compression of the net interest margin, somewhat offset by growth in average earning assets. Average earning assets were $186.2 billion for 2006, compared with $178.4 billion and $168.1 billion for 2005 and 2004, respectively. The $7.8 billion (4.4 percent) increase in average earning assets for 2006, compared with 2005, was primarily driven by growth in total average loans of 6.8 percent, partially offset by a decrease in average investment securities of 5.1 percent from a year ago. The net interest margin in 2006 was 3.65 percent, compared with 3.97 percent and 4.25 percent in 2005 and 2004, respectively. The 32 basis point decline in 2006 net interest margin, compared with 2005, reflected the competitive lending environment and the impact of a flatter yield curve from a year ago. Compared with 2005, credit spreads tightened by approximately 17 basis points in 2006 across most lending products due to competitive pricing and a change in mix reflecting 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. An increase in the margin benefit of net free funds and loan fees partially offset these factors. Beginning in the third quarter of 2006, the Federal Reserve Bank paused from its policies of increasing interest rates and tightening the money supply that began in mid-2004. As of December 31, 2006, the yield curve was relatively flat and the current consensus in the market is that it will remain flat or slightly inverted throughout much of 2007. This market condition will continue to be challenging for the banking industry. If the Federal Reserve Bank leaves rates unchanged over the next several quarters, the Company expects its net interest margin to remain relatively stable as asset repricing occurs and funding costs moderate. Net interest income growth is primarily expected to be driven by earning asset growth during this timeframe.

Average loans in 2006 were $9.0 billion (6.8 percent) higher than 2005, driven by growth in residential mortgages, commercial loans and retail loans of $3.0 billion (16.7 percent), $2.8 billion (6.6 percent) and $2.4 billion

Table 2 ANALYSIS OF NET INTEREST INCOME

(Dollars in Millions)	2006	2005	2004	2006 v 2005	2005 v 2004
COMPONENTS OF NET INTEREST INCOME					
Income on earning assets (taxable-equivalent basis) (a)	$ 12,351	$ 10,584	$ 9,215	$ 1,767	$ 1,369
Expense on interest-bearing liabilities	5,561	3,496	2,075	2,065	1,421
Net interest income (taxable-equivalent basis)	$ 6,790	$ 7,088	$ 7,140	$ (298)	$ (52)

Net interest income, as reported	$ 6,741	$ 7,055	$ 7,111	$ (314)	$ (56)
AVERAGE YIELDS AND RATES PAID					
Earning assets yield (taxable-equivalent basis)	6.63%	5.93%	5.48%	.70%	.45%
Rate paid on interest-bearing liabilities (taxable-equivalent basis)	3.55	2.37	1.53	1.18	.84
Gross interest margin (taxable-equivalent basis)	3.08%	3.56%	3.95%	(.48)%	(.39)%
Net interest margin (taxable-equivalent basis)	3.65%	3.97%	4.25%	(.32)%	(.28)%
AVERAGE BALANCES					
Investment securities	$ 39,961	$ 42,103	$ 43,009	$(2,142)	$ (906)
Loans	140,601	131,610	120,670	8,991	10,940
Earning assets	186,231	178,425	168,123	7,806	10,302
Interest-bearing liabilities	156,613	147,295	136,055	9,318	11,240
Net free funds (b)	29,618	31,130	32,068	(1,512)	(938)

(a) *Interest and rates are presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.*
(b) *Represents noninterest-bearing deposits, allowance for loan losses, unrealized gain (loss) on available-for-sale securities, non-earning assets, other noninterest-bearing liabilities and equity.*

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(5.5 percent), respectively. The growth in residential mortgages was due to increased retention of loans throughout 2005, primarily related to adjustable-rate residential mortgages. However 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 grow only moderately in future periods. Slower growth rates of commercial and retail loans reflected the competitive market conditions for credit lending and excess liquidity available to many business customers in 2006. Total average commercial real estate loans increased only 2.8 percent relative to 2005, reflecting customer refinancing activities given liquidity available in the financial markets, a decision by the Company to reduce condominium construction financing and an economic slowdown in residential homebuilding during 2006.

Average investment securities were $2.1 billion (5.1 percent) lower in 2006, compared with 2005. The decrease principally reflected asset/liability management decisions to reduce the focus on residential mortgage-backed assets given the changing interest rate environment and mix of loan growth experienced during the year. Additionally, the Company reclassified approximately $.5 billion of principal-only securities to its trading account effective January 1, 2006, in connection with the adoption of SFAS 156. 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 in 2006 were $474 million (1.6 percent) lower than 2005. The year-over-year decrease reflected a decline in personal and business demand deposits, partially offset by higher corporate trust deposits related to recent acquisitions. The change in demand balances reflected a migration of customer accounts to interest-bearing products given the rising interest rate environment. The decline in business customer balances also reflected customer utilization of excess liquidity to fund their business growth.

Average total savings products declined $2.1 billion (3.6 percent) in 2006, compared with 2005, due to reductions in average money market savings and other savings accounts, partially offset by an increase in interest checking balances. Average money market savings balances declined year-over-year by $2.6 billion (9.0 percent), primarily due to a decline in branch-based balances. The decline was partially offset by an increase in balances held by broker-dealers. The overall year-over-year decrease in average money market savings balances was primarily the result of the Company s deposit pricing decisions for money

Table 3 NET INTEREST INCOME CHANGES DUE TO RATE AND VOLUME (a)

	2006 v 2005			2005 v 2004		
(Dollars in Millions)	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Increase (decrease) in						
INTEREST INCOME						
Investment securities	$(100)	$ 201	$ 101	$ (39)	$ 165	$ 126
Loans held for sale	20	35	55	9	38	47
Loans						
Commercial	164	304	468	185	103	288
Commercial real estate	51	249	300	39	222	261
Residential mortgages	167	56	223	211	(22)	189
Retail	167	410	577	210	238	448
Total loans	549	1,019	1,568	645	541	1,186
Other earning assets	45	(2)	43	4	6	10
Total earning assets	514	1,253	1,767	619	750	1,369
INTEREST EXPENSE						
Interest-bearing deposits						

Interest checking	5	93	98	6	58	64
Money market savings	(32)	243	211	(25)	148	123
Savings accounts	(1)	5	4			
Time certificates of deposit less than $100,000	17	118	135	3	45	48
Time deposits greater than $100,000	51	331	382	123	297	420
Total interest-bearing deposits	40	790	830	107	548	655
Short-term borrowings	179	373	552	88	339	427
Long-term debt	145	538	683	27	312	339
Total interest-bearing liabilities	364	1,701	2,065	222	1,199	1,421
Increase (decrease) in net interest income	$ 150	$ (448)	$ (298)	$397	$ (449)	$ (52)

(a) *This table shows the components of the change in net interest income by volume and rate on a taxable-equivalent basis utilizing a tax rate of 35 percent. This table does not take into account the level of noninterest-bearing funding, nor does it fully reflect changes in the mix of assets and liabilities. The change in interest not solely due to changes in volume or rates has been allocated on a pro-rata basis to volume and yield/rate.*

market products in relation to other fixed-rate deposit products offered. During 2006, a portion of branch-based money market savings account balances migrated to fixed-rate time certificates to take advantage of higher interest rates for these products.

Average time certificates of deposit less than $100,000 were $562 million (4.3 percent) higher in 2006, compared with 2005. Average time deposits greater than $100,000 grew $1.6 billion (7.7 percent) in 2006, compared with 2005. This growth was primarily driven by the migration of money market balances within the Consumer Banking and Wealth Management business lines, as customers migrated balances to higher rate deposits.

The decline in net interest income in 2005, compared with 2004, reflected growth in average earning assets, more than offset by a lower net interest margin. The $10.3 billion (6.1 percent) increase in average earning assets for 2005, compared with 2004, was primarily driven by increases in residential mortgages, commercial loans and retail loans. The 28 basis point decline in 2005 net interest margin, compared with 2004, reflected the competitive lending environment and the impact of changes in the yield curve. The net interest margin was also adversely impacted by share repurchases, funding incremental growth of earning assets with higher cost wholesale funding, and asset/liability decisions designed to reduce the Company s rate sensitivity position including issuing longer-term fixed-rate debt and reducing the Company s net receive-fixed interest rate swap positions. Slightly higher loan fees and the increasing margin benefit of deposits and net free funds partially offset these factors.

Average loans in 2005 were higher by $11.0 billion (9.1 percent), compared with 2004, primarily driven by growth in residential mortgages, commercial loans and retail loans. Average investment securities were $906 million (2.1 percent) lower in 2005, compared with 2004, principally reflecting maturities and prepayments utilized to fund earning asset growth and the net impact of repositioning the investment portfolio as part of asset/liability risk management decisions. Average noninterest-bearing deposits in 2005 were $587 million (2.0 percent) lower than in 2004. The year-over-year change in the average balances of noninterest-bearing deposits was impacted by product changes in the Consumer Banking business line. In late 2004, the Company migrated approximately $1.3 billion of noninterest-bearing deposit balances to interest checking accounts as an enhancement to its Silver Elite Checking product. Average total savings products declined $1.7 billion (2.9 percent) year-over-year, compared with 2004, due to reductions in average money market savings account balances and savings accounts, partially offset by higher interest checking balances due to strong new account growth, as well as the $1.3 billion migration of the Silver Elite Checking product. Average money market savings account balances declined from 2004 to 2005 by $3.5 billion (10.8 percent), with declines in both the branches and other business lines. The decline was primarily the result of deposit pricing by the Company for money market products in relation to other fixed-rate deposit products offered. A portion of the money market savings balances migrated to time deposits greater than $100,000 as rates increased on the time deposit products. Average time deposits greater than $100,000 grew $7.0 billion (51.0 percent) in 2005, compared with 2004, most notably in corporate banking, as customers migrated balances to higher rate deposits.

Provision for Credit Losses The provision for credit losses is recorded to bring the allowance for credit losses to a level deemed appropriate by management based on factors discussed in the Analysis and Determination of Allowance for Credit Losses section.

The provision for credit losses was $544 million in 2006, compared with $666 million and $669 million in 2005 and 2004, respectively.

The $122 million (18.3 percent) decrease in the provision for credit losses in 2006 reflected stable credit quality in 2006 and the adverse impact in the fourth quarter of 2005 on net charge-offs from changes in bankruptcy law in 2005. Nonperforming loans, principally reflecting changes in the quality of commercial loans, declined $74 million from December 31, 2005. However, accruing loans ninety days past due and restructured loans that continue to accrue interest increased by $186 million from a year ago. Net charge-offs declined $141 million from 2005, principally due to the impact of changes in bankruptcy laws that went into effect during the fourth quarter of 2005. In 2005, approximately $64 million of incremental net charge-offs occurred due to the change in bankruptcy laws and a separate policy change related to overdraft balances. As a result of these changes, bankruptcy charge-offs were lower in 2006 while customers experiencing credit deterioration migrated further through contractual delinquencies and bankruptcy levels increased from past bankruptcy reform.

The $3 million (.4 percent) decline in the provision for credit losses in 2005 reflected improving levels of nonperforming loans, resulting in lower net charge-offs in 2005. Nonperforming loans, principally reflecting changes in the quality of commercial and commercial real estate loans, declined $96 million from December 31, 2004. Net charge-offs declined $82 million from 2004, the result of lower gross charge-offs within the commercial and commercial real estate portfolios. The improvement in commercial and commercial real estate gross charge-offs was partially offset by the impact of bankruptcy legislation enacted in the fourth quarter of 2005 and lower commercial

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and commercial real estate recoveries. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other 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 2006 was $6.8 billion, compared with $6.0 billion in 2005 and $5.5 billion in 2004. The $801 million (13.3 percent) increase in 2006 over 2005, was driven by organic business growth, expansion in trust and payment processing businesses, higher trading income related to gains on certain interest rate swaps, equity gains from the initial public offering and subsequent sale of the equity interest in a card association during 2006 and a current year gain on the sale of a 401(k) defined contribution recordkeeping business. These favorable changes were partially offset by lower mortgage banking revenue, principally due to the impact of adopting SFAS 156 effective in the first quarter of 2006. In addition, there was a $120 million favorable change in net securities gains (losses) as compared with 2005.

The growth in credit and debit card revenue of 12.2 percent was principally driven by higher customer transaction sales volumes and fees related to cash advances, balance transfers and over-limit positions. The corporate payment products revenue growth of 14.1 percent reflected organic growth in sales volumes and card usage, enhancements in product pricing and acquired business expansion. ATM processing services revenue was 6.1 percent higher primarily due to the acquisition of an ATM business in May 2005. Merchant processing services revenue was 25.1 percent higher in 2006, compared with 2005, reflecting an increase in sales volume driven by acquisitions, higher same store sales, new merchant signings and associated equipment fees. Trust and investment management fees increased 22.4 percent primarily due to organic customer account growth, improving asset management fees given favorable equity market conditions, and incremental revenue generated by recent acquisitions of corporate and institutional trust businesses. Deposit service charges were 10.2 percent higher year-over-year due to increased transaction-related fees and the impact of net new checking accounts. Mortgage banking revenue declined $240 million in 2006, compared with 2005. The decline was primarily due to a reduction of $210 million related to the adoption of SFAS 156 and lower mortgage loan production offset somewhat by higher mortgage servicing revenues. Other income increased by $220 million (37.1 percent) from 2005, primarily due to gains of $67 million from the initial public offering and subsequent sale of equity interests in a cardholder association and a $52 million gain on the sale of a 401(k) defined contribution recordkeeping business during 2006. In addition, other income was higher due to trading income of $50 million related to certain interest rate swaps, lower end-of-term lease residual losses, incremental student loan sales gains and the receipt of a favorable settlement of $10 million in the merchant processing business. In light of recent developments with respect to the application of accounting rules related to derivatives, the Company conducted reviews of all its derivatives utilized for hedging purposes. As a result of these reviews, the Company identified certain interest rate swaps and forward commitments designated as accounting hedges that either did not have adequate documentation at the date of inception or misapplied the short-cut method under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). As such, the Company determined that changes in the market values of these derivatives, since their inception, should have been recorded as trading income despite the fact that these derivatives effectively reduced the economic risks of the underlying assets or liabilities. The annual impact to net income of these errors was .3 percent and .7 percent for the years ended December 31, 2005 and 2004, respectively. The Company evaluated the impact of these hedge accounting practices on its financial statements for

Table 4 NONINTEREST INCOME

(Dollars in Millions)	2006	2005	2004	2006 v 2005	2005 v 2004
Credit and debit card revenue	$ 800	$ 713	$ 649	12.2%	9.9%
Corporate payment products revenue	557	488	407	14.1	19.9
ATM processing services	243	229	175	6.1	30.9

Merchant processing services	963	770	675	25.1	14.1
Trust and investment management fees	1,235	1,009	981	22.4	2.9
Deposit service charges	1,023	928	807	10.2	15.0
Treasury management fees	441	437	467	.9	(6.4)
Commercial products revenue	415	400	432	3.8	(7.4)
Mortgage banking revenue	192	432	397	(55.6)	8.8
Investment products fees and commissions	150	152	156	(1.3)	(2.6)
Securities gains (losses), net	14	(106)	(105)	*	1.0
Other	813	593	478	37.1	24.1
Total noninterest income	$6,846	$6,045	$5,519	13.3%	9.5%

** Not meaningful*

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all quarterly and annual periods presented and concluded that the impact of these errors was not material to each of these financial statements. As a result, the cumulative impact of these accounting differences was recorded during 2006 resulting in $50 million of trading gains in other noninterest income.

The $526 million (9.5 percent) increase in noninterest income in 2005, compared with 2004, was driven by strong organic growth in most fee income categories, particularly payment processing revenues and deposit service charges. The growth in credit and debit card revenue was principally driven by higher customer transaction volumes and rate changes. The corporate payment products revenue growth reflected growth in sales, card usage, rate changes and the acquisition of a small aviation card business. ATM processing services revenue was higher due to an ATM business acquisition in May of 2005. Merchant processing services revenue was higher, reflecting an increase in merchant sales volume and business expansion in European markets. The increase in trust and investment management fees was primarily attributed to improved equity market conditions and account growth. Deposit service charges grew due to increased transaction-related fees and new account growth in the branches. The growth in mortgage banking revenue was due to origination fees and gains from higher production volumes and increased servicing income. Other income increased primarily due to higher income from equity investments and the cash surrender value of insurance products relative to 2004. Partially offsetting these positive variances were decreases in treasury management fees and commercial products revenue. The decrease in treasury management fees was due to higher earnings credits on customers compensating balances, partially offset by growth in treasury management-related service activities. Commercial products revenue declined due to reductions in non-yield loan fees, syndications and fees for letters of credit.

Noninterest Expense Noninterest expense in 2006 was $6.2 billion, compared with $5.9 billion and $5.8 billion in 2005 and 2004, respectively. The Company s efficiency ratio increased to 45.4 percent in 2006 from 44.3 percent in 2005. The change in the efficiency ratio and the $317 million (5.4 percent) increase in noninterest expenses in 2006, compared with 2005, was primarily driven by incremental operating and business integration costs associated with recent acquisitions, increased pension costs and higher expense related to certain tax-advantaged investments. This was partially offset by a reduction in intangible expense and lower debt prepayment charges in 2006.

Compensation expense was 5.5 percent higher year-over-year primarily due to the corporate and institutional trust and payments processing acquisitions and other growth initiatives undertaken by the Company. Employee benefits increased 11.6 percent, year-over-year, primarily as a result of higher pension expense. Net occupancy and equipment expense increased 3.0 percent primarily due to business expansion. Professional services expense was 19.9 percent higher primarily due to revenue enhancement-related business initiatives, including establishing a bank charter in Ireland to support pan-European payment processing, and legal costs. Technology and communications expense rose 8.4 percent, reflecting higher outside data processing expense principally associated with expanding a prepaid gift card program and the corporate and institutional trust acquisitions. In connection with the adoption of SFAS 156, the impact of eliminating amortization of mortgage servicing rights (MSRs) and related impairments or reparations of these servicing rights decreased intangible expenses in 2006 by approximately $144 million compared with 2005. Debt prepayment charges declined $21 million (38.9 percent) from 2005 and were related to longer-term callable debt that was prepaid by the Company as part of asset/liability decisions to improve funding costs and reposition the Company s interest rate risk position. Other expense increased 23.0 percent

Table 5 NONINTEREST EXPENSE

(Dollars in Millions)	2006	2005	2004	2006 v 2005	2005 v 2004
Compensation	$2,513	$2,383	$2,252	5.5%	5.8%
Employee benefits	481	431	389	11.6	10.8
Net occupancy and equipment	660	641	631	3.0	1.6
Professional services	199	166	149	19.9	11.4

Marketing and business development	217	235	194	(7.7)	21.1
Technology and communications	505	466	430	8.4	8.4
Postage, printing and supplies	265	255	248	3.9	2.8
Other intangibles	355	458	550	(22.5)	(16.7)
Debt prepayment	33	54	155	(38.9)	(65.2)
Other	952	774	787	23.0	(1.7)
Total noninterest expense	$6,180	$5,863	$5,785	5.4%	1.3%
Efficiency ratio (a)	45.4%	44.3%	45.3%		

(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.

primarily due to increased investments in tax-advantaged projects and business integration costs relative to a year ago.

The $78 million (1.3 percent) increase in noninterest expenses in 2005, compared with 2004, was primarily driven by expenses related to business investments, acquired businesses, and production-based incentives, offset by a $99 million favorable change in MSR amortization and a $101 million decrease in debt prepayment charges. Compensation expense was higher year-over-year principally due to business expansion, including in-store branches, expanding the Company s payment processing businesses and other product sales initiatives. Employee benefits increased primarily as a result of higher pension expense, medical costs, payroll taxes and other benefits. Professional services expense rose due to increases in legal and other professional services related to business initiatives, technology development and integration costs of specific payment processing businesses. Marketing and business development expense increased due to marketing initiatives, principally related to brand awareness and credit card and prepaid gift card programs. Technology and communications expense was higher, reflecting depreciation of technology investments, network costs associated with the expansion of the payment processing businesses, and higher outside data processing expense associated with expanding a prepaid gift card program. Other expense declined primarily due to lower operating and fraud losses and insurance costs, partially offset by increased investments in affordable housing and other tax-advantaged projects and higher merchant processing costs due to the expansion of the payment processing businesses relative to 2004.

Pension Plans Because of the long-term nature of pension plans, the administration and accounting for pensions is complex and can be impacted by several factors, including investment and funding policies, accounting methods and the plans actuarial assumptions. The Company and its Compensation Committee have an established process for evaluating the plans, their performance and significant plan assumptions, including the assumed discount rate and the long-term rate of return (LTROR). Annually the Company s Compensation Committee, assisted by outside consultants, evaluates plan objectives, funding policies and investment policies considering its long-term investment time horizon and asset allocation strategies. Note 16 of the Notes to Consolidated Financial Statements provides further information on funding practices, investment policies and asset allocation strategies.

Periodic pension expense (or income) includes service costs, interest costs based on the assumed discount rate, the expected return on plan assets based on an actuarially derived market-related value and amortization of actuarial gains and losses. The Company s pension accounting policy follows generally accepted accounting standards and reflects the long-term nature of benefit obligations and the investment horizon of plan assets. This accounting guidance has the effect of reducing earnings volatility related to short-term changes in interest rates and market valuations. Actuarial gains and losses include the impact of plan amendments and various unrecognized gains and losses related to differences in actual plan experience compared with actuarial assumptions, which are deferred and amortized over the future service periods of active employees. The actuarially derived market-related value utilized to determine the expected return on plan assets is based on fair value adjusted for the difference between expected returns and actual performance of plan assets. The unrealized difference between actual experience and expected returns is included in the actuarially derived market-related value ratably over a five-year period. At September 30, 2006, this accumulated unrecognized gain approximated $249 million, compared with $206 million at September 30, 2005. The impact on pension expense of the unrecognized asset gains will incrementally decrease pension costs in each year from 2007 to 2011, by approximately $18 million, $24 million, $16 million, $12 million and $3 million, respectively. This assumes that the performance of plan assets in 2007 and beyond equals the assumed LTROR. Actual results will vary depending on the performance of plan assets and changes to assumptions required in the future. Refer to Note 1 of the Notes to Consolidated Financial Statements for further discussion of the Company s accounting policies for pension plans.

In 2006, the Company recognized a pension cost of $81 million compared with a pension cost of $33 million and $9 million in 2005 and 2004, respectively. The $48 million increase in pension costs in 2006 was driven by recognition of net deferred actuarial losses and the impact of a lower discount rate. In 2005, pension costs increased by $24 million, compared with 2004, also driven by recognition of deferred actuarial losses and the impact of a lower discount rate.

In 2007, the Company anticipates that pension costs will decrease by approximately $27 million. The decrease will be primarily driven by utilizing a higher discount rate given the rising interest rate environment and amortization of unrecognized actuarial gains from prior years, accounting for approximately $13 million and $14 million of the anticipated decrease, respectively.

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Note 16 of the Notes to Consolidated Financial Statements provides a summary of the significant pension plan assumptions. Because of the subjective nature of plan assumptions, a sensitivity analysis to hypothetical changes in the LTROR and the discount rate is provided below:

LTROR (Dollars in Millions)	6.9%	7.9%	Base 8.9%	9.9%	10.9%
Incremental benefit (cost)	$ (45)	$ (22)	$	$ 22	$ 45
Percent of 2006 net income	(.59)%	(.29)%	%	.29%	.59%

DISCOUNT RATE (Dollars in Millions)	4.0%	5.0%	Base 6.0%	7.0%	8.0%
Incremental benefit (cost)	$ (111)	$ (50)	$	$ 40	$ 71
Percent of 2006 net income	(1.45)%	(.65)%	%	.52%	.93%

Due to the complexity of forecasting pension plan activities, the accounting method utilized for pension plans, management s ability to respond to factors impacting the plans and the hypothetical nature of this information, the actual changes in periodic pension costs could be different than the information provided in the sensitivity analysis.

Income Tax Expense The provision for income taxes was $2,112 million (an effective rate of 30.8 percent) in 2006, compared with $2,082 million (an effective rate of 31.7 percent) in 2005 and $2,009 million (an effective rate of 32.5 percent) in 2004. The decrease in the effective tax rate from 2005 primarily reflected higher tax exempt income from investment securities and insurance products as well as incremental tax credits from affordable housing and other tax-advantaged investments.

Included in 2006 was a reduction of income tax expense of $61 million related to the resolution of federal income tax examinations covering substantially all of the Company s legal entities for all years through 2004 and $22 million related to certain state examinations. Included in the determination of income taxes for 2005 and 2004 were reductions of income tax expense of $94 million and $106 million, respectively, related to the resolution of income tax examinations. The Company anticipates that its effective tax rate for the foreseeable future will approximate 32 percent of pretax earnings.

For further information on income taxes, refer to Note 18 of the Notes to Consolidated Financial Statements.

Table 6 LOAN PORTFOLIO DISTRIBUTION

	2006		2005		2004		2003		2002	
At December 31 (Dollars in Millions)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
COMMERCIAL										
Commercial	$ 40,640	28.3%	$ 37,844	27.7%	$ 35,210	28.2%	$ 33,536	28.7%	$ 36,584	31.8%

Lease financing	5,550	3.9	5,098	3.7	4,963	4.0	4,990	4.3	5,360	4.7
Total commercial	46,190	32.2	42,942	31.4	40,173	32.2	38,526	33.0	41,944	36.5
COMMERCIAL REAL ESTATE										
Commercial mortgages	19,711	13.7	20,272	14.9	20,315	16.3	20,624	17.6	20,325	17.7
Construction and development	8,934	6.2	8,191	6.0	7,270	5.8	6,618	5.7	6,542	5.7
Total commercial real estate	28,645	19.9	28,463	20.9	27,585	22.1	27,242	23.3	26,867	23.4
RESIDENTIAL MORTGAGES										
Residential mortgages	15,316	10.7	14,538	10.7	9,722	7.8	7,332	6.3	6,446	5.6
Home equity loans, first liens	5,969	4.1	6,192	4.5	5,645	4.5	6,125	5.2	3,300	2.9
Total residential mortgages	21,285	14.8	20,730	15.2	15,367	12.3	13,457	11.5	9,746	8.5
RETAIL										
Credit card	8,670	6.0	7,137	5.2	6,603	5.3	5,933	5.1	5,665	4.9
Retail leasing	6,960	4.9	7,338	5.4	7,166	5.7	6,029	5.2	5,680	4.9
Home equity and second mortgages	15,523	10.8	14,979	11.0	14,851	11.9	13,210	11.3	13,572	11.8
Other retail										
Revolving credit	2,563	1.8	2,504	1.8	2,541	2.0	2,540	2.2	2,650	2.3
Installment	4,478	3.1	3,582	2.6	2,767	2.2	2,380	2.0	2,258	2.0
Automobile	8,693	6.1	8,112	6.0	7,419	5.9	7,165	6.1	6,343	5.5
Student	590	.4	675	.5	469	.4	329	.3	180	.2
Total other	16,324	11.4	14,873	10.9	13,196	10.5	12,414	10.6	11,431	10.0

retail										
Total retail	47,477	33.1	44,327	32.5	41,816	33.4	37,586	32.2	36,348	31.6
Total loans	$143,597	100.0%	$136,462	100.0%	$124,941	100.0%	$116,811	100.0%	$114,905	100.0%

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BALANCE SHEET ANALYSIS

Average earning assets were $186.2 billion in 2006, compared with $178.4 billion in 2005. The increase in average earning assets of $7.8 billion (4.4 percent) was primarily driven by growth in total average loans, partially offset by a decrease in investment securities. The change in average earning assets was principally funded by increases in wholesale funding.

For average balance information, refer to Consolidated Daily Average Balance Sheet and Related Yields and Rates on pages 106 and 107.

Loans The Company s loan portfolio was $143.6 billion at December 31, 2006, an increase of $7.1 billion (5.2 percent) from December 31, 2005. The increase was driven by growth in commercial loans (7.6 percent), retail loans (7.1 percent), residential mortgages (2.7 percent) and commercial real estate loans (.6 percent). Table 6 provides a summary of the loan distribution by product type, while Table 10 provides a summary of selected loan maturity distribution by loan category. Average total loans increased $9.0 billion (6.8 percent) in 2006, compared with 2005. The increase was due to growth in most loan categories.

Commercial Commercial loans, including lease financing, increased $3.2 billion (7.6 percent) as of December 31, 2006, compared with December 31, 2005. The increase was driven by new customer relationships, revolving credit line utilization by business customers and growth in corporate payment card and commercial leasing balances. Additionally, loans to financial institutions increased 10.6 percent from a year ago. Average commercial loans increased $2.8 billion (6.6 percent) in 2006, compared with 2005, primarily due to an increase in commercial loan demand driven by general economic conditions in 2006.

Table 7 provides a summary of commercial loans by industry and geographical locations.

Commercial Real Estate The Company s portfolio of commercial real estate loans, which includes commercial mortgages and construction loans, increased $.2 billion

Table 7 COMMERCIAL LOANS BY INDUSTRY GROUP AND GEOGRAPHY

	December 31, 2006		December 31, 2005	
INDUSTRY GROUP (Dollars in Millions)	Loans	Percent	Loans	Percent
Consumer products and services	$ 9,303	20.1%	$ 8,723	20.3%
Financial services	6,375	13.8	5,416	12.6
Commercial services and supplies	4,645	10.1	4,326	10.1
Capital goods	3,872	8.4	3,881	9.0
Property management and development	3,104	6.7	3,182	7.4
Agriculture	2,436	5.3	2,693	6.3
Healthcare	2,328	5.0	2,064	4.8
Paper and forestry products, mining and basic materials	2,190	4.7	1,990	4.6
Consumer staples	1,749	3.8	1,785	4.2
Transportation	1,662	3.6	1,565	3.7
Private investors	1,565	3.4	1,477	3.4
Energy	1,104	2.4	842	2.0
Information technology	821	1.8	700	1.6
Other	5,036	10.9	4,298	10.0
Total	$46,190	100.0%	$42,942	100.0%
GEOGRAPHY				

California	$ 4,112	8.9%	$ 3,561	8.3%
Colorado	2,958	6.4	2,578	6.0
Illinois	2,789	6.0	2,919	6.8
Minnesota	6,842	14.8	6,806	15.8
Missouri	1,862	4.0	2,056	4.8
Ohio	2,672	5.8	2,640	6.2
Oregon	1,870	4.0	1,649	3.8
Washington	2,212	4.8	2,404	5.6
Wisconsin	2,295	5.0	2,421	5.6
Iowa, Kansas, Nebraska, North Dakota, South Dakota	4,308	9.3	3,721	8.7
Arkansas, Indiana, Kentucky, Tennessee	2,070	4.5	2,214	5.2
Idaho, Montana, Wyoming	1,015	2.2	825	1.9
Arizona, Nevada, Utah	1,602	3.5	1,163	2.7
Total banking region	36,607	79.2	34,957	81.4
Outside the Company s banking region	9,583	20.8	7,985	18.6
Total	$46,190	100.0%	$42,942	100.0%

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Table 8 COMMERCIAL REAL ESTATE BY PROPERTY TYPE AND GEOGRAPHY

	December 31, 2006		December 31, 2005	
PROPERTY TYPE (Dollars in Millions)	Loans	Percent	Loans	Percent
Business owner occupied	$10,027	35.0%	$ 9,221	32.4%
Commercial property				
Industrial	939	3.3	1,025	3.6
Office	2,226	7.8	2,306	8.1
Retail	2,732	9.5	3,558	12.5
Other	2,745	9.6	2,704	9.5
Homebuilders				
Condominiums	1,117	3.9	911	3.2
Other	3,440	12.0	2,988	10.5
Multi-family	3,850	13.4	3,843	13.5
Hotel/motel	1,126	3.9	1,423	5.0
Health care facilities	443	1.6	484	1.7
Total	$28,645	100.0%	$28,463	100.0%
GEOGRAPHY				
California	$ 6,044	21.1%	$ 5,806	20.4%
Colorado	1,404	4.9	1,366	4.8
Illinois	1,060	3.7	1,025	3.6
Minnesota	1,833	6.4	1,765	6.2
Missouri	1,461	5.1	1,452	5.1
Ohio	1,375	4.8	1,537	5.4
Oregon	1,747	6.1	1,736	6.1
Washington	3,065	10.7	2,846	10.0
Wisconsin	1,547	5.4	1,679	5.9
Iowa, Kansas, Nebraska, North Dakota, South Dakota	1,948	6.8	1,935	6.8
Arkansas, Indiana, Kentucky, Tennessee	1,404	4.9	1,565	5.5
Idaho, Montana, Wyoming	1,060	3.7	1,110	3.9
Arizona, Nevada, Utah	2,406	8.4	2,362	8.3
Total banking region	26,354	92.0	26,184	92.0
Outside the Company s banking region	2,291	8.0	2,279	8.0
Total	$28,645	100.0%	$28,463	100.0%

(.6 percent) at December 31, 2006, compared with December 31, 2005. Construction and development loans increased $.7 billion (9.1 percent) despite developers beginning to slow homebuilding and managing their inventories of residential homes in response to softening market conditions. Additionally, the Company made a decision to reduce financing activities for the construction of condominiums and similar housing projects. Commercial mortgages outstanding decreased $.6 billion (2.8 percent) reflecting reductions in traditional commercial real estate mortgages due to customer refinancing activities, given liquidity available in the financial markets. Average commercial real estate loans increased $.8 billion (2.8 percent) in 2006, compared with 2005, primarily driven by growth in construction and development loans. Table 8 provides a summary of commercial real estate by property type and geographical locations.

The Company maintains the real estate construction designation until the completion of the construction phase and, if retained, the loan is reclassified to the commercial mortgage category. Approximately $161 million of construction loans were permanently financed and reclassified to the commercial mortgage loan category in 2006. At December 31, 2006, $233 million of tax-exempt industrial development loans were secured by real estate. The Company s commercial real estate mortgages and construction loans had unfunded commitments of $8.9 billion at December 31, 2006, compared with $9.8 billion at December 31, 2005. The Company also finances the operations of real estate developers and other entities with operations related to real estate. These loans are not secured directly by real estate and are subject to terms and conditions similar to commercial loans. These loans were included in the commercial loan category and totaled $1.7 billion at December 31, 2006.

Residential Mortgages Residential mortgages held in the loan portfolio at December 31, 2006, increased $.6 billion (2.7 percent) from December 31, 2005. The growth was the result of an increase in consumer finance originations, partially offset by the Company s decision in early 2006 to resume packaging and selling a majority of its residential mortgage loan production in the secondary markets. Average residential mortgages increased $3.0 billion

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Table 9 RESIDENTIAL MORTGAGES AND RETAIL LOANS BY GEOGRAPHY

	December 31, 2006		December 31, 2005	
(Dollars in Millions)	Loans	Percent	Loans	Percent
RESIDENTIAL MORTGAGES				
California	$ 1,356	6.4%	$ 1,351	6.5%
Colorado	1,480	6.9	1,406	6.8
Illinois	1,359	6.4	1,402	6.8
Minnesota	2,287	10.7	2,350	11.3
Missouri	1,516	7.1	1,549	7.4
Ohio	1,529	7.2	1,487	7.2
Oregon	952	4.5	964	4.6
Washington	1,273	6.0	1,245	6.0
Wisconsin	1,100	5.2	1,136	5.5
Iowa, Kansas, Nebraska, North Dakota, South Dakota	1,512	7.1	1,536	7.4
Arkansas, Indiana, Kentucky, Tennessee	1,676	7.9	1,570	7.6
Idaho, Montana, Wyoming	470	2.2	489	2.4
Arizona, Nevada, Utah	1,168	5.5	1,161	5.6
Total banking region	17,678	83.1	17,646	85.1
Outside the Company s banking region	3,607	16.9	3,084	14.9
Total	$21,285	100.0%	$20,730	100.0%
RETAIL LOANS				
California	$ 5,769	12.1%	$ 5,142	11.6%
Colorado	2,284	4.8	2,305	5.2
Illinois	2,429	5.1	2,305	5.2
Minnesota	5,075	10.7	4,920	11.1
Missouri	2,464	5.2	2,438	5.5
Ohio	3,224	6.8	3,236	7.3
Oregon	2,024	4.3	1,906	4.3
Washington	2,278	4.8	2,172	4.9
Wisconsin	2,454	5.2	2,438	5.5
Iowa, Kansas, Nebraska, North Dakota, South Dakota	3,096	6.5	3,014	6.8
Arkansas, Indiana, Kentucky, Tennessee	3,588	7.6	3,325	7.5
Idaho, Montana, Wyoming	1,339	2.8	1,241	2.8
Arizona, Nevada, Utah	1,964	4.1	1,773	4.0
Total banking region	37,988	80.0	36,215	81.7
Outside the Company s banking region	9,489	20.0	8,112	18.3
Total	$47,477	100.0%	$44,327	100.0%

(16.7 percent) in 2006, compared with 2005. During 2005, the Company was retaining a substantial portion of its adjustable-rate residential mortgage loan production in connection with asset/liability management decisions to reduce its risk to rising interest rates. Average residential mortgage loan balances increased as a result of the timing of these asset/liability decisions.

Retail Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, increased $3.2 billion (7.1 percent) at December 31, 2006, compared with December 31, 2005. The increase was primarily driven by growth in credit card and other retail loans, both of which increased by $1.5 billion during 2006. The increases in these loan

Table 10 SELECTED LOAN MATURITY DISTRIBUTION

December 31, 2006 (Dollars in Millions)	One Year or Less	Over One Through Five Years	Over Five Years	Total
Commercial	$20,398	$22,925	$ 2,867	$ 46,190
Commercial real estate	8,878	13,049	6,718	28,645
Residential mortgages	938	2,679	17,668	21,285
Retail	15,817	18,802	12,858	47,477
Total loans	$46,031	$57,455	$40,111	$143,597
Total of loans due after one year with				
Predetermined interest rates				$ 48,776
Floating interest rates				$ 48,790

categories were offset somewhat by a slight reduction in retail leasing balances of $.4 billion during the year. Average retail loans increased $2.4 billion (5.5 percent) in 2006, principally reflecting growth in credit card and installment loans. Credit card growth was driven by balance transfers, balance growth within co-branded card contracts and affinity programs. Of the total retail loans and residential mortgages outstanding, approximately 81.0 percent were to customers located in the Company s primary banking regions. Table 9 provides a geographic summary of residential mortgages and retail loans outstanding as of December 31, 2006.

Loans Held for Sale At December 31, 2006, loans held for sale, consisting of residential mortgages, student loans, and other selective loans to be sold in the secondary market, were $3.3 billion, compared with $3.0 billion at

Table 11 INVESTMENT SECURITIES

	Available-for-Sale				Held-to-Maturity			
December 31, 2006 (Dollars in Millions)	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)
U.S. TREASURY AND AGENCIES								
Maturing in one year or less	$ 91	$ 91	.4	5.21%	$	$		%
Maturing after one year through five years	28	29	2.4	7.12				
Maturing after five years through ten years	21	21	7.0	6.71				
Maturing after ten years	332	326	13.6	5.99				
Total	$ 472	$ 467	10.1	5.94%	$	$		%
MORTGAGE-BACKED SECURITIES (a)								
Maturing in one year or less	$ 437	$ 438	.8	5.45%	$	$		%
Maturing after one year through five years	17,832	17,386	3.3	4.68	7	7	3.1	5.75
Maturing after five years through ten years	12,676	12,402	6.9	5.30				
Maturing after ten years	3,520	3,561	13.1	6.51				

Total	$34,465	$33,787	5.6	5.10%	$ 7	$ 7	3.1	5.75%
ASSET-BACKED SECURITIES (a)								
Maturing in one year or less	$ 7	$ 7	.1	5.32%	$	$		%
Maturing after one year through five years								
Maturing after five years through ten years								
Maturing after ten years								
Total	$ 7	$ 7	.1	5.32%	$	$		%
OBLIGATIONS OF STATE AND POLITICAL SUBDIVISIONS (b)								
Maturing in one year or less	$ 50	$ 50	.3	6.94%	$ 2	$ 2	.5	6.20%
Maturing after one year through five years	37	37	2.1	6.84	19	20	2.9	6.07
Maturing after five years through ten years	3,670	3,746	8.9	6.78	15	18	8.4	7.12
Maturing after ten years	706	706	14.8	6.16	31	32	16.1	5.52
Total	$ 4,463	$ 4,539	9.7	6.68%	$ 67	$ 72	10.1	6.06%
OTHER DEBT SECURITIES								
Maturing in one year or less	$ 122	$ 122	.1	4.33%	$ 2	$ 2	.5	6.94%
Maturing after one year through five years	61	61	4.7	6.27	10	10	2.7	5.78
Maturing after five years through ten years	21	21	9.2	6.29	1	1	5.3	6.09
Maturing after ten years	790	789	29.3	6.33				
Total	$ 994	$ 993	23.8	6.08%	$ 13	$ 13	2.5	5.98%
OTHER INVESTMENTS	$ 229	$ 237		6.26%	$	$		%

Total investment securities (c)	$40,630	$40,030	6.6	5.32%	$ 87	$ 92	8.4	6.03%

(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.

	2006		2005	
December 31 (Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 472	1.2%	$ 496	1.2%
Mortgage-backed securities	34,472	84.7	38,169	94.4
Asset-backed securities	7		12	.1
Obligations of state and political subdivisions	4,530	11.1	724	1.8
Other debt securities and investments	1,236	3.0	1,029	2.5
Total investment securities	$40,717	100.0%	$40,430	100.0%

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December 31, 2005. The increase in loans held for sale was principally due to an increase in residential mortgage balances. Average loans held for sale were $3.7 billion in 2006, compared with $3.3 billion in 2005.

Investment Securities The Company uses its investment securities portfolio for several purposes. It serves as a vehicle to manage interest rate risk, generates interest and dividend income from the investment of excess funds depending on loan demand, provides liquidity and is used as collateral for public deposits and wholesale funding sources. While it is the Company s intent to hold its investment securities indefinitely, the Company may take actions in response to structural changes in the balance sheet and related interest rate risk and to meet liquidity requirements.

At December 31, 2006, investment securities, both available-for-sale and held-to-maturity, totaled $40.1 billion, compared with $39.8 billion at December 31, 2005. The $.3 billion (.9 percent) increase primarily reflected securities purchases of $7.5 billion, partially offset by maturities and prepayments. Additionally, the Company reclassified $.5 billion of principal-only securities to the trading account effective January 1, 2006, in connection with the adoption of SFAS 156. At December 31, 2006, approximately 37 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. The decline in the percentage of adjustable-rate securities reflects decisions to purchase higher yielding fixed-rate municipal bonds and certain preferred corporate debt instruments. Average investment securities were $2.1 billion (5.1 percent) lower in 2006, compared with 2005. The decline principally reflected asset/liability management decisions to reduce the focus on residential mortgage-backed assets given the changing mix of the Company s loan growth.

The weighted-average yield of the available-for-sale portfolio was 5.32 percent at December 31, 2006, compared with 4.89 percent at December 31, 2005. The average maturity of the available-for-sale portfolio increased to 6.6 years at December 31, 2006, up from 6.1 years at December 31, 2005. The relative mix of the type of investment securities maintained in the portfolio is provided in Table 11. At December 31, 2006, the available-for-sale portfolio included a $600 million net unrealized loss, compared with a net unrealized loss of $662 million at December 31, 2005.

Deposits Total deposits were $124.9 billion at December 31, 2006, compared with $124.7 billion at December 31, 2005, reflecting increases in interest checking and time certificates of deposits less than $100,000, partially offset by decreases in noninterest-bearing deposits, savings accounts, money market savings and balances from time deposits greater than $100,000. Average total deposits decreased $.4 billion (.3 percent) from 2005, reflecting a decline in average noninterest-bearing deposits, money market savings, and other savings accounts. The decreases in these categories were partially offset by higher average interest checking and fixed-rate time certificate balances as branch-based customer balances migrated from lower rate saving products to products with higher interest rate offerings.

Noninterest-bearing deposits at December 31, 2006, decreased $.1 billion (.3 percent) from December 31, 2005. The decrease was primarily attributed to a decline in business demand deposits as these customers reduced excess liquidity to fund business growth. The change also reflected a migration of customers to interest-bearing products, given rising interest rates. Average noninterest-bearing deposits in 2006 decreased $.5 billion (1.6 percent), compared with 2005, due to similar factors.

Interest-bearing savings deposits decreased $.3 billion (.6 percent) at December 31, 2006, compared with December 31, 2005. The decline in these deposit balances was primarily related to reductions in money market savings and savings account balances, partially offset by an increase in interest checking accounts. The $1.7 billion (6.1 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 migrated to fixed-rate time certificates in response to higher interest rates for these products. The $1.7 billion (7.1 percent) increase in interest checking account balances was due to an increase in trust and custody and government balances, partially offset by decreases in private banking balances. Average interest-bearing savings deposits in 2006 decreased $2.1 billion (3.6 percent), compared with 2005, primarily driven by a reduction in money market savings account balances of $2.6 billion (9.0 percent), partially offset by higher interest checking account balances of $.8 billion (3.4 percent).

Interest-bearing time deposits at December 31, 2006, increased $.6 billion (1.7 percent), compared with December 31, 2005, primarily driven by an increase in time certificates of deposit less than $100,000. The increase in time certificates of deposit less than $100,000 was due to the migration of a portion of customer noninterest-bearing and money market savings account balances to fixed-rate deposits. Average time deposits greater than $100,000 increased $1.6 billion (7.7 percent) and average time certificates of deposit less than $100,000 increased $.6 billion (4.3 percent) in 2006, compared with 2005.

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Table 12 DEPOSITS

The composition of deposits was as follows:

December 31 (Dollars in Millions)	2006 Amount	2006 Percent of Total	2005 Amount	2005 Percent of Total	2004 Amount	2004 Percent of Total	2003 Amount	2003 Percent of Total	2002 Amount	2002 Percent of Total
Noninterest-bearing deposits	$ 32,128	25.7%	$ 32,214	25.8%	$ 30,756	25.5%	$ 32,470	27.3%	$ 35,106	30.4%
Interest-bearing deposits										
Interest checking	24,937	20.0	23,274	18.7	23,186	19.2	21,404	18.0	17,467	15.1
Money market savings	26,220	21.0	27,934	22.4	30,478	25.2	34,025	28.6	27,753	24.0
Savings accounts	5,314	4.2	5,602	4.5	5,728	4.8	5,630	4.7	5,021	4.4
Total of savings deposits	56,471	45.2	56,810	45.6	59,392	49.2	61,059	51.3	50,241	43.5
Time certificates of deposit less than $100,000	13,859	11.1	13,214	10.6	12,544	10.4	13,690	11.5	17,973	15.5
Time deposits greater than $100,000										
Domestic	14,868	11.9	14,341	11.5	11,956	9.9	5,902	4.9	9,427	8.2
Foreign	7,556	6.1	8,130	6.5	6,093	5.0	5,931	5.0	2,787	2.4
Total interest-bearing deposits	92,754	74.3	92,495	74.2	89,985	74.5	86,582	72.7	80,428	69.6
Total deposits	$ 124,882	100.0%	$ 124,709	100.0%	$ 120,741	100.0%	$ 119,052	100.0%	$ 115,534	100.0%

The maturity of time certificates of deposit less than $100,000 and time deposits greater than $100,000 was as follows:

December 31, 2006 (Dollars in Millions)	Time Certificates of Deposit Less Than $100,000	Time Deposits Greater Than $100,000	Total
Three months or less	$ 3,521	$ 17,101	$20,622

Three months through six months	3,173	2,071	5,244
Six months through one year	3,304	1,789	5,093
2008	2,673	915	3,588
2009	677	274	951
2010	210	126	336
2011	294	145	439
Thereafter	7	3	10
Total	$13,859	$ 22,424	$36,283

Time deposits greater than $100,000 are largely viewed as purchased funds and are managed to levels deemed appropriate given alternative funding sources.

Borrowings The Company utilizes both short-term and long-term borrowings to fund earning asset growth 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 $26.9 billion at December 31, 2006, compared with $20.2 billion at December 31, 2005. Short-term funding is managed within approved liquidity policies. The increase of $6.7 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 $37.6 billion at December 31, 2006, compared with $37.1 billion at December 31, 2005, reflecting the issuances of $5.5 billion of medium-term and bank notes, $2.5 billion of convertible senior debentures, $2.5 billion of junior subordinated debentures and the addition of $3.1 billion of Federal Home Loan Bank (FHLB) advances. These additions were partially offset by $7.6 billion of medium-term and bank note maturities, and $3.4 billion of convertible senior debenture repayments. In addition, the Company elected to redeem $1.9 billion of junior subordinated debentures in connection with asset/liability and interest rate risk management decisions. Refer to Note 12 of the Notes to Consolidated Financial Statements for additional information regarding long-term debt and 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 value, 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 value 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, which 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 exhibiting 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, record any necessary charge-offs promptly and maintain adequate reserve levels for probable loan losses inherent in the portfolio. Commercial banking operations rely on prudent credit policies and procedures and individual lender and business line manager accountability. Lenders are assigned lending authority based on their level of experience and customer service requirements. Credit officers reporting to an independent credit administration function have higher levels of lending authority and support the business units in their credit decision process. Loan decisions are documented as to the borrower s business, purpose of the loan, evaluation of the repayment source and the associated risks, evaluation of collateral, covenants and monitoring requirements, and risk rating rationale. The Company utilizes a credit risk rating system to measure the credit quality of individual commercial loans including the probability of default of an obligor and the loss given default of credit facilities. The Company uses the risk rating system for regulatory reporting, determining the frequency of review of the credit exposures, and evaluation and determination of the specific allowance for commercial credit losses. The Company regularly forecasts potential changes in risk ratings, nonperforming status and potential for loss and the estimated impact on the allowance for credit losses. In the Company s retail banking operations, standard credit scoring systems are used to assess credit risks of consumer, small business and small-ticket leasing customers and to price consumer products accordingly. The Company conducts the underwriting and collections of its retail products in loan underwriting and servicing centers specializing in certain retail products. Forecasts of delinquency levels, bankruptcies and losses in conjunction with projection of estimated losses by delinquency categories and vintage information are regularly prepared and are used to evaluate underwriting and collection and determine the specific allowance for credit losses for these products. 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. The Company also engages in non-lending activities that may give rise to credit risk, including interest rate swap and option contracts for balance sheet hedging purposes, foreign exchange transactions, deposit overdrafts and interest rate swap contracts for customers, and settlement risk, including Automated Clearing House transactions, and the processing of credit card transactions for merchants. These activities are also subject to credit review, analysis and approval processes.

Economic and Other Factors In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors.

Since mid-2003, economic conditions have steadily improved as evidenced by stronger earnings across many corporate sectors, higher equity valuations, and stronger retail sales and consumer spending. In late 2003, unemployment rates stabilized and began to decline from a high of 6.13 percent in the third quarter of that year. However, the banking industry continued to have elevated levels of nonperforming assets and net charge-offs in 2003 compared with the late 1990 s.

Economic conditions have steadily improved during the timeframe from 2004 through 2006, as reflected in strong expansion of the gross domestic product index, lower unemployment rates, expanding retail sales levels, favorable trends related to corporate profits and consumer spending for retail goods and services. Beginning in mid-2004 through the second quarter of 2006, the Federal Reserve Bank pursued a measured approach to increasing short-term rates in an effort to prevent an acceleration of inflation and maintain a moderate rate of economic growth. The rising interest rate environment has caused some softening of residential home and condominium sales. Nationwide sales of condominium units reached a peak in mid-2005 and have declined since that timeframe. With respect to residential homes, inventory levels approximated a 7 month supply at the end of 2006, up from 4.5 months in the third quarter of 2005. Median home prices, which peaked in mid-2006, have declined somewhat across most domestic markets with more severe price reductions in the Northeast and Southeast regions. Since the second quarter of 2006, retail sales have slowed somewhat and industrial production declined moderately in the fourth quarter of 2006. Beginning in the third quarter of 2006, the Federal Reserve Bank paused from its approach of increasing interest rates and tightening the money supply as growth in inflationary indices began to moderate.

In addition to economic factors, changes in regulations and legislation can have an impact on the credit performance of the loan portfolios. Beginning in 2005, the Company implemented higher minimum balance payment requirements for its credit card customers in response to industry guidance issued by the banking regulatory agencies. This industry guidance was provided to minimize the likelihood that minimum balance payments would not be sufficient to cover interest, fees and a portion of the principal balance of a credit card loan resulting in negative amortization, or increasing account balances. Also, new bankruptcy legislation was enacted in October 2005, making it more difficult for borrowers to have their debts forgiven during bankruptcy proceedings. As a result of the changes in bankruptcy laws, the levels of consumer and business bankruptcy filings increased dramatically in the fourth quarter of 2005 and declined in early 2006 to levels that were a third of average bankruptcy filings during 2004 and early 2005. While consumer bankruptcies have begun to increase somewhat, bankruptcy filings in the fourth quarter of 2006 approximated only fifty percent of pre-2005 levels. Going forward, the lending industry may experience increasing levels of nonperforming loans, restructured loans and delinquencies due to changing collections strategies for consumer credit.

Credit Diversification The Company manages its credit risk, in part, through diversification of its loan portfolio. As part of its normal business activities, it offers a broad array of traditional commercial lending products and specialized products such as asset-based lending, commercial lease financing, agricultural credit, warehouse mortgage lending, commercial real estate, health care and correspondent banking. The Company also offers an array of retail lending products including credit cards, retail leases, home equity, revolving credit, lending to students and other consumer loans. These retail credit products are primarily offered through the branch office network, home mortgage and loan production offices, indirect distribution channels, such as automobile dealers and a consumer finance division. The Company monitors and manages the portfolio diversification by industry, customer and geography. Table 6 provides information with respect to the overall product diversification and changes in the mix during 2006.

The commercial portfolio reflects the Company s focus on serving small business customers, middle market and larger corporate businesses throughout its 24-state banking region, as well as large national customers. Table 7 provides a summary of the significant industry groups and geographic locations of commercial loans outstanding at December 31, 2006 and 2005. The commercial loan portfolio is diversified among various industries with somewhat higher concentrations in consumer products and services, financial services, commercial services and supplies, capital goods (including manufacturing and commercial construction-related businesses), property management and development and agricultural industries. Additionally, the commercial portfolio is diversified across the Company s geographical markets with 79.2 percent of total commercial loans within the 24-state banking region. Credit relationships outside of the Company s banking region are reflected within the corporate banking, mortgage banking, auto dealer and leasing businesses focusing on large national customers and specifically targeted industries. Loans to mortgage banking customers are primarily warehouse lines which are collateralized with the underlying mortgages. The Company regularly monitors its mortgage collateral position to manage its risk exposure.

The commercial real estate portfolio reflects the Company s focus on serving business owners within its footprint as well as regional and national investment-based real estate. At December 31, 2006, the Company had commercial real estate loans of $28.6 billion, or 19.9 percent of total loans, compared with $28.5 billion at December 31, 2005. Within commercial real estate loans, different property types have varying degrees of credit risk. Table 8 provides a summary of the significant property types and geographical locations of commercial real estate loans outstanding at December 31, 2006 and 2005. At December 31, 2006, approximately 35.0 percent of the commercial real estate loan portfolio represented business owner-occupied properties that tend to exhibit credit risk characteristics similar to the middle market commercial loan portfolio. Generally, the investment-based real estate mortgages are diversified among various property types with somewhat higher concentrations in office and retail properties. While investment-based commercial real estate continues to perform with relatively strong occupancy levels and cash flows, these categories of loans can be adversely impacted during a rising rate environment. During the year, the Company began to reduce the level of its construction financing of condominium projects given the deterioration in unit pricing in several regions of the country. Included in

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commercial real estate at year end 2006 was approximately $.7 billion in loans related to land held for development and $2.2 billion of loans related to residential and commercial acquisition and development properties. These loans are subject to quarterly monitoring for changes in local market conditions due to a higher credit risk profile. Acquisition and development loans continued to perform well, despite a slow down in the housing market and softening of demand. The commercial real estate portfolio is diversified across the Company s geographical markets with 92.0 percent of total commercial real estate loans outstanding at December 31, 2006, within the 24-state banking region.

Residential mortgages represent an important financial product for consumer customers of the Company and are originated through the Company s branches, loan production offices, a wholesale network of originators and a consumer finance division. With respect to residential mortgages originated through these channels, the Company may either retain the loans on its balance sheet or sell its interest in the balances into the secondary market while retaining the servicing rights and customer relationships. Utilizing the secondary markets enables the Company to effectively reduce its credit and other asset/liability risks. For residential mortgages that are retained in the Company s portfolio, credit risk is also diversified by geography and by monitoring loan-to-values during the underwriting process.

The following table provides summary information of the loan-to-values of residential mortgages by distribution channel and type at December 31, 2006:

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
CONSUMER FINANCE				
Less than or equal to 80%	$ 694	$ 2,204	$ 2,898	35.9%
Over 80% through 90%	746	1,351	2,097	25.9
Over 90% through 100%	575	2,435	3,010	37.2
Over 100%		79	79	1.0
Total	$2,015	$ 6,069	$ 8,084	100.0%
TRADITIONAL BRANCH				
Less than or equal to 80%	$2,464	$10,224	$12,688	96.1%
Over 80% through 90%	109	232	341	2.6
Over 90% through 100%	120	52	172	1.3
Over 100%				
Total	$2,693	$10,508	$13,201	100.0%
TOTAL COMPANY				
Less than or equal to 80%	$3,158	$12,428	$15,586	73.2%
Over 80% through 90%	855	1,583	2,438	11.5
Over 90% through 100%	695	2,487	3,182	14.9
Over 100%		79	79	.4
Total	$4,708	$16,577	$21,285	100.0%

Note: loan-to-values determined as of the date of origination.

Within the consumer finance division approximately $2.8 billion, or 35.1 percent of that division, represents loans to customers that may be defined as sub-prime borrowers. Of these loans, 34.8 percent had a loan-to-value of less than or equal to 80 percent of the origination amount, while 24.2 percent had loan-to-values of over 80 percent through

90 percent and 39.1 percent had loan-to-values of over 90 percent through 100 percent.
The following table provides further information for the consumer finance division:

(Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Division
SUB-PRIME BORROWERS				
Less than or equal to 80%	$ 4	$ 985	$ 989	12.3%
Over 80% through 90%	6	681	687	8.5
Over 90% through 100%	34	1,076	1,110	13.7
Over 100%		55	55	.7
Total	$ 44	$2,797	$2,841	35.2%
OTHER BORROWERS				
Less than or equal to 80%	$ 690	$1,219	$1,909	23.6%
Over 80% through 90%	740	670	1,410	17.4
Over 90% through 100%	541	1,359	1,900	23.5
Over 100%		24	24	.3
Total	$1,971	$3,272	$5,243	64.8%
TOTAL CONSUMER FINANCE	$2,015	$6,069	$8,084	100.0%

The Company does not have any residential mortgages whose payment schedule would cause balances to increase over time.

The retail loan portfolio principally reflects the Company s focus on consumers within its footprint of branches and certain niche lending activities that are nationally focused. Within the Company s retail loan portfolio approximately 82.7 percent of the credit card balances relate to bank branch, co-branded and affinity programs that generally experience better credit quality performance than portfolios generated through national direct mail programs. At December 31, 2006, approximately 80.8 percent of the student loan portfolio is federally guaranteed through various programs reducing its risk profile.

Table 9 provides a geographical summary of the residential mortgage and retail loan portfolios.

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 an 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. Advances made pursuant to servicing agreements to Government National Mortgage Association

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Table 13 DELINQUENT LOAN RATIOS AS A PERCENT OF ENDING LOANS BALANCES

At December 31, 90 days or more past due **excluding** nonperforming loans	2006	2005	2004	2003	2002
COMMERCIAL					
Commercial	.06%	.06%	.05%	.06%	.14%
Lease financing			.02	.04	.10
Total commercial	.05	.05	.05	.06	.14
COMMERCIAL REAL ESTATE					
Commercial mortgages	.01			.02	.03
Construction and development	.01			.03	.07
Total commercial real estate	.01			.02	.04
RESIDENTIAL MORTGAGES	.45	.32	.46	.61	.90
RETAIL					
Credit card	1.75	1.26	1.74	1.68	2.09
Retail leasing	.03	.04	.08	.14	.19
Other retail	.23	.23	.30	.43	.56
Total retail	.48	.37	.49	.58	.74
Total loans	.24%	.19%	.24%	.28%	.37%

At December 31, 90 days or more past due **including** nonperforming loans	2006	2005	2004	2003	2002
Commercial	.57%	.69%	.99%	1.97%	2.35%
Commercial real estate	.53	.55	.73	.82	.90
Residential mortgages (a)	.62	.55	.74	.91	1.44
Retail	.58	.52	.53	.65	.81
Total loans	.57%	.58%	.75%	1.16%	1.45%

(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 3.11 percent, 4.35 percent, 5.19 percent, and 6.07 percent at December 31, 2006, 2005, 2004 and 2003, respectively. Information prior to 2003 is not available.*

(GNMA) mortgage pools whose repayments of principal and interest are substantially insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs are excluded from delinquency statistics. In addition, under certain situations, a retail customer s account may be re-aged to remove it from delinquent status. Generally, the intent of a re-aged account is to assist customers who have recently overcome temporary financial difficulties, and have demonstrated both the ability and willingness to resume regular payments. To qualify for re-aging, the account must have been open for at least one year and cannot have been re-aged during the preceding 365 days. An account may not be re-aged more than two times in a five year period. To qualify for re-aging, the customer must also have made three regular minimum monthly payments within the last 90 days. In addition, the Company may re-age the retail account of a customer who has experienced longer-term financial difficulties and apply modified, concessionary terms and conditions to the account. Such additional re-ages are limited to one in a five year period, must meet the qualifications for re-aging described above. All re-aging strategies must be independently approved by the Company s credit administration function and are limited to credit card and credit line accounts. Commercial loans are not subject to re-aging policies.

Accruing loans 90 days or more past due totaled $349 million at December 31, 2006, compared with $253 million at December 31, 2005, and $294 million at December 31, 2004. The increase in 90 day delinquent loans from December 31, 2005, to December 31, 2006, was primarily driven by the impact of the bankruptcy legislation in 2005. These loans were 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 90 day delinquent loans to total loans was .24 percent at December 31, 2006, compared with .19 percent at December 31, 2005.

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

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

December 31, (Dollars in Millions)	Amount 2006	Amount 2005	As a Percent of Ending Loan Balances 2006	As a Percent of Ending Loan Balances 2005
RESIDENTIAL MORTGAGES				
30-89 days	$154	$112	.72%	.55%
90 days or more	95	67	.45	.32
Nonperforming	36	48	.17	.23
Total	$285	$227	1.34%	1.10%
RETAIL				
Credit card				
30-89 days	$204	$147	2.35%	2.06%
90 days or more	152	90	1.75	1.26
Nonperforming	31	49	.36	.69
Total	$387	$286	4.46%	4.01%
Retail leasing				
30-89 days	$ 34	$ 43	.49%	.59%
90 days or more	2	3	.03	.04
Nonperforming				
Total	$ 36	$ 46	.52%	.63%
Other retail				
30-89 days	$210	$206	.66%	.69%
90 days or more	72	70	.23	.23
Nonperforming	17	17	.05	.06
Total	$299	$293	.94%	.98%

Within these product categories, the following table provides information on the amount of delinquent and nonperforming loans and the percent of ending loan balances, by channel as of December 31, 2006:

(Dollars in Millions)	Consumer Finance Amount	Consumer Finance Percent	Traditional Branch Amount	Traditional Branch Percent
RESIDENTIAL MORTGAGES	$134	1.66%	$151	1.14%
RETAIL				
Credit card	$	%	$387	4.46%

Retail leasing			36	.52
Other retail	69	3.02	230	.78

Within the consumer finance division approximately $105 million and $50 million of these delinquent and nonperforming residential mortgages and other retail loans, respectively, were to customers that may be defined as sub-prime borrowers.

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 December 31, 2006, total nonperforming assets were $587 million, compared with $644 million at year-end 2005 and $748 million at year-end 2004. The ratio of total nonperforming assets to total loans and other real estate decreased to .41 percent at December 31, 2006, compared with .47 percent and .60 percent at the end of 2005 and 2004, respectively. The $57 million decrease in total nonperforming assets in 2006 principally reflected decreases in nonperforming commercial, residential mortgages and retail loans, partially offset by a $24 million increase in other real estate as a result of taking ownership of more residential properties. The decrease in nonperforming commercial loans in 2006 was broad-based across many industry sectors within the commercial loan portfolio including agriculture, commercial supplies, consumer-related sectors, manufacturing and transportation. Some deterioration in credit quality was experienced within the home improvement, furnishing and building sectors during the year. The reduction in nonperforming commercial real estate loans during 2006 extended across most property types and was driven by refinancing of commercial real estate mortgages given the extent of liquidity available in the market. Nonperforming loans related to construction financing have increased somewhat during the year. Nonperforming retail loans decreased from a year ago, primarily due to the run-off of nonaccrual accounts from a discontinued workout program for customers having financial difficulties meeting recent minimum balance payment requirements. Under this program, retail customers that met certain criteria had the terms of their credit card and other loan agreements modified to allow amortization of their balances over a period of up to 60 months. Residential mortgage loans on nonaccrual status decreased during 2006. As a percentage of ending loan balances, nonperforming residential mortgages declined to .17 percent at December 31, 2006 compared with .23 percent at December 31, 2005.

The $104 million decrease in total nonperforming assets in 2005, as compared with 2004, reflected decreases in nonperforming commercial and commercial real estate loans, partially offset by increases in nonperforming residential mortgages and retail loans. The decrease in nonperforming commercial loans in 2005 was also broad-based across most industry sectors within the commercial loan portfolio including capital goods, customer-related sectors, manufacturing and certain segments of transportation. The increase in nonperforming retail loans during 2005 was directly related to the workout program, discussed above, for customers having financial difficulties meeting recent minimum balance payment requirements.

Included in nonperforming loans were restructured loans of $38 million and $75 million at December 31, 2006 and 2005, respectively. At December 31, 2006, the Company had no commitments to lend additional funds under restructured loans, compared with $9 million at December 31, 2005.

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Table 14 NONPERFORMING ASSETS (a)

At December 31, (Dollars in Millions)	2006	2005	2004	2003	2002
COMMERCIAL					
Commercial	$196	$231	$289	$624	$760
Lease financing	40	42	91	113	167
Total commercial	236	273	380	737	927
COMMERCIAL REAL ESTATE					
Commercial mortgages	112	134	175	178	175
Construction and development	38	23	25	40	57
Total commercial real estate	150	157	200	218	232
RESIDENTIAL MORTGAGES	36	48	43	40	52
RETAIL					
Credit card	31	49			
Retail leasing					1
Other retail	17	17	17	25	25
Total retail	48	66	17	25	26
Total nonperforming loans	470	544	640	1,020	1,237
OTHER REAL ESTATE (b)	95	71	72	73	59
OTHER ASSETS	22	29	36	55	77
Total nonperforming assets	$587	$644	$748	$1,148	$1,373
Accruing loans 90 days or more past due	$349	$253	$294	$329	$426
Nonperforming loans to total loans	.33%	.40%	.51%	.87%	1.08%
Nonperforming assets to total loans plus other real estate (b)	.41%	.47%	.60%	.98%	1.19%
Net interest lost on nonperforming loans	$ 39	$ 30	$ 42	$ 67	$ 65

CHANGES IN NONPERFORMING ASSETS

(Dollars in Millions)	Commercial and Commercial Real Estate	Retail and Residential Mortgages (d)	Total
BALANCE DECEMBER 31, 2005	$457	$187	$644
Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties	480	66	546
Advances on loans	36		36

Total additions	516	66	582
Reductions in nonperforming assets			
Paydowns, payoffs	(240)	(49)	(289)
Net sales	(95)		(95)
Return to performing status	(97)	(8)	(105)
Charge-offs (c)	(135)	(15)	(150)
Total reductions	(567)	(72)	(639)
Net reductions in nonperforming assets	(51)	(6)	(57)
BALANCE DECEMBER 31, 2006	$406	$181	$587

(a) *Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.*
(b) *Excludes $83 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 performing under the restructured terms beyond a specified timeframe are reported as restructured loans that continue to accrue interest.

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:

December 31 (Dollars in Millions)	Amount 2006	Amount 2005	As a Percent of Ending Loan Balances 2006	As a Percent of Ending Loan Balances 2005
Commercial	$ 18	$ 5	.04%	.01%
Commercial real estate	1	1		
Residential mortgages	80	59	.38	.28
Credit card	267	218	3.08	3.05
Other retail	39	32	.10	.09
Total	$ 405	$ 315	.28%	.23%

Restructured loans that accrue interest were higher at December 31, 2006, compared with December 31, 2005,

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Table 15 NET CHARGE-OFFS AS A PERCENT OF AVERAGE LOANS OUTSTANDING

Year Ended December 31	2006	2005	2004	2003	2002
COMMERCIAL					
Commercial	.15%	.12%	.29%	1.34%	1.29%
Lease financing	.46	.85	1.42	1.65	2.67
Total commercial	.18	.20	.43	1.38	1.46
COMMERCIAL REAL ESTATE					
Commercial mortgages	.01	.03	.09	.14	.17
Construction and development	.01	(.04)	.13	.16	.11
Total commercial real estate	.01	.01	.10	.14	.15
RESIDENTIAL MORTGAGES	.19	.20	.20	.23	.23
RETAIL					
Credit card	2.88	4.20	4.14	4.62	4.97
Retail leasing	.20	.35	.59	.86	.72
Home equity and second mortgages	.33	.46	.54	.70	.73
Other retail	.85	1.33	1.35	1.79	2.35
Total retail	.92	1.30	1.36	1.68	1.91
Total loans	.39%	.52%	.64%	1.07%	1.21%

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 $544 million in 2006, compared with $685 million in 2005 and $767 million in 2004. The ratio of total loan net charge-offs to average loans was .39 percent in 2006, compared with .52 percent in 2005 and .64 percent in 2004. The overall level of net charge-offs in 2006 and 2005 reflected improving economic conditions and the Company s efforts to reduce the overall risk profile of the portfolio through ongoing improvement in collection efforts underwriting and risk management. These factors have resulted in improved credit quality and lower gross charge-offs over the past three years.

Commercial and commercial real estate loan net charge-offs for 2006 were $88 million (.12 percent of average loans outstanding), compared with $90 million (.13 percent of average loans outstanding) in 2005 and $196 million (.29 percent of average loans outstanding) in 2004. The year-over-year improvement in net charge-offs reflected lower gross charge-offs, partially offset by a lower level of recoveries. The Company expects commercial net charge-offs to increase somewhat over the next several quarters due to higher gross charge-offs from cyclical low levels and lower commercial loan recoveries at this stage of the economic cycle. The decrease in commercial and commercial real estate loan net charge-offs in 2005 compared with 2004, was broad-based and extended across most industries within the commercial loan portfolio.

Retail loan net charge-offs in 2006 were $415 million (.92 percent of average loans outstanding), compared with $559 million (1.30 percent of average loans outstanding) in 2005 and $542 million (1.36 percent of average loans outstanding) in 2004. The decrease in retail loan net charge-offs in 2006, compared with 2005, reflected the impact of the bankruptcy legislation enacted in the fourth quarter of 2005 and improved retail portfolio performance. The Company anticipates charge-offs will return to more normalized levels in future quarters. Higher amounts of retail loan net charge-offs in 2005, compared with 2004, reflected the bankruptcy legislation enacted in the fourth quarter of

2005.

The Company s retail lending business utilizes several distinct business processes and channels to originate retail credit, including traditional branch credit, 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 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:

Year Ended December 31 (Dollars in Millions)	Average Loans		Percent of Average Loans	
	2006	2005	2006	2005
CONSUMER FINANCE (a)				
Residential mortgages	$ 7,414	$ 5,947	.51%	.52%
Home equity and second mortgages	1,971	2,431	1.42	1.81
Other retail	399	393	4.76	5.09
TRADITIONAL BRANCH				
Residential mortgages	$13,639	$12,089	.02%	.04%
Home equity and second mortgages	13,175	12,514	.17	.19
Other retail	15,057	13,670	.74	1.22
TOTAL COMPANY				
Residential mortgages	$21,053	$18,036	.19%	.20%
Home equity and second mortgages	15,146	14,945	.33	.46
Other retail	15,456	14,063	.85	1.33

(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.

Within the consumer finance division, the Company originates loans to customers that may be defined as sub-prime borrowers. The following table provides further information on net charge-offs as a percentage of average loans outstanding for the division:

Year Ended December 31 (Dollars in Millions)	Average Loans		Percent of Average Loans	
	2006	2005	2006	2005
RESIDENTIAL MORTGAGES				
Sub-prime borrowers	$2,602	$1,932	.95%	.93%
Other borrowers	4,812	4,015	.27	.32
Total	$7,414	$5,947	.51%	.52%
HOME EQUITY AND SECOND MORTGAGES				
Sub-prime borrowers	$ 842	$ 781	1.72%	2.63%
Other borrowers	1,129	1,650	1.20	1.43
Total	$1,971	$2,431	1.42%	1.81%

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 credit losses.

At December 31, 2006, the allowance for credit losses was $2,256 million (1.57 percent of loans), compared with an allowance of $2,251 million (1.65 percent of loans) at December 31, 2005, and $2,269 million (1.82 percent of loans) at December 31, 2004. The ratio of the allowance for credit losses to nonperforming loans was 480 percent at December 31, 2006, compared with 414 percent and 355 percent at December 31, 2005 and 2004, respectively. The ratio of the allowance for credit losses to loan net charge-offs at December 31, 2006, was 415 percent, compared with 329 percent and 296 percent at December 31, 2005 and 2004, respectively. Management determined that the allowance for credit losses was adequate at December 31, 2006.

Several factors were taken into consideration in evaluating the allowance for credit losses at December 31, 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, and the extent of credit exposure to specific 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 balances, and their relative credit risks were evaluated. Finally, the Company considered current economic conditions that might impact the portfolio. Management determines the allowance that is required for specific loan categories based on relative risk characteristics of the loan portfolio. On an ongoing basis, management evaluates its methods for determining the allowance for each element of the portfolio and makes enhancements considered appropriate. Table 17 shows the amount of the allowance for credit losses by portfolio category.

The allowance recorded for commercial and commercial real estate loans is based, in part, on a regular review of individual credit relationships. The Company s risk rating process is an integral component of the methodology utilized to determine these elements of the allowance for credit losses. An allowance for credit losses is established for pools of commercial and commercial real estate loans and unfunded commitments based on the risk ratings assigned. An analysis of the migration of commercial and commercial real estate loans and actual loss experience throughout the business cycle is conducted quarterly to assess the exposure for credits with similar risk characteristics. In addition to its risk rating process, the Company separately analyzes the carrying value of impaired

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Table 16 SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

(Dollars in Millions)	2006	2005	2004	2003	2002
Balance at beginning of year	$2,251	$2,269	$2,369	$2,422	$2,457
CHARGE-OFFS					
Commercial					
Commercial	121	140	244	556	559
Lease financing	51	76	110	139	189
Total commercial	172	216	354	695	748
Commercial real estate					
Commercial mortgages	11	16	29	44	41
Construction and development	1	3	13	13	9
Total commercial real estate	12	19	42	57	50
Residential mortgages	43	39	33	30	23
Retail					
Credit card	256	313	282	282	305
Retail leasing	25	38	49	57	45
Home equity and second mortgages	62	83	89	105	108
Other retail	193	241	225	268	312
Total retail	536	675	645	712	770
Total charge-offs	763	949	1,074	1,494	1,591
RECOVERIES					
Commercial					
Commercial	61	95	144	70	67
Lease financing	27	34	41	55	40
Total commercial	88	129	185	125	107
Commercial real estate					
Commercial mortgages	8	10	11	16	9
Construction and development		6	4	2	2
Total commercial real estate	8	16	15	18	11
Residential mortgages	2	3	4	3	4
Retail					
Credit card	36	35	30	27	25
Retail leasing	11	12	10	7	6
Home equity and second mortgages	12	15	13	12	11
Other retail	62	54	50	50	54
Total retail	121	116	103	96	96
Total recoveries	219	264	307	242	218
NET CHARGE-OFFS					

Commercial					
Commercial	60	45	100	486	492
Lease financing	24	42	69	84	149
Total commercial	84	87	169	570	641
Commercial real estate					
Commercial mortgages	3	6	18	28	32
Construction and development	1	(3)	9	11	7
Total commercial real estate	4	3	27	39	39
Residential mortgages	41	36	29	27	19
Retail					
Credit card	220	278	252	255	280
Retail leasing	14	26	39	50	39
Home equity and second mortgages	50	68	76	93	97
Other retail	131	187	175	218	258
Total retail	415	559	542	616	674
Total net charge-offs	544	685	767	1,252	1,373
Provision for credit losses	544	666	669	1,254	1,349
Acquisitions and other changes	5	1	(2)	(55)	(11)
Balance at end of year	$2,256	$2,251	$2,269	$2,369	$2,422
COMPONENTS					
Allowance for loan losses	$2,022	$2,041	$2,080	$2,184	
Liability for unfunded credit commitments	234	210	189	185	
Total allowance for credit losses	$2,256	$2,251	$2,269	$2,369	
Allowance for credit losses as a percentage of					
Period-end loans	1.57%	1.65%	1.82%	2.03%	2.11%
Nonperforming loans	480	414	355	232	196
Nonperforming assets	384	350	303	206	176
Net charge-offs	415	329	296	189	176

loans to determine whether the carrying value is less than or equal to the appraised collateral value or the present value of expected cash flows. Based on this analysis, an allowance for credit losses may be specifically established for impaired loans. The allowance established for commercial and commercial real estate loan portfolios, including impaired commercial and commercial real estate loans, was $955 million at December 31, 2006, compared with

$929 million and $941 million at December 31, 2005 and 2004, respectively. The increase in the allowance for commercial and commercial real estate loans of $26 million at December 31, 2006, compared with December 31, 2005, reflected the impact of growth in the portfolios and a $81 million increase related to changes in risk classifications, offset somewhat by a $55 million reduction related to changes in loss severity rates.

The allowance recorded for the residential mortgages and retail loan portfolios is based on an analysis of product mix, credit scoring and risk composition of the portfolio, loss and bankruptcy experiences, economic conditions and historical and expected delinquency and charge-off statistics for each homogenous group of loans. Based on this information and analysis, an allowance was established approximating a rolling twelve-month estimate of net charge-offs. The allowance established for residential mortgages was $58 million at December 31, 2006, compared with $39 million and $33 million at December 31, 2005 and 2004, respectively. The increase in the allowance for the residential mortgage portfolio year-over-year was primarily due to higher loss rates, higher delinquencies and the seasoning of the portfolio during 2006. The allowance established for retail loans was $542 million at December 31, 2006, compared with $558 million and $610 million at December 31, 2005 and 2004, respectively. The decline in the allowance for the retail portfolio in 2006 reflected improved credit quality favorably impacting inherent loss ratios and declining delinquency trends, partially offset by the impact of portfolio growth.

Regardless of the extent of the Company s analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolios. This is due to several factors, including inherent delays in obtaining information regarding a customer s financial condition or changes in their unique business conditions, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses from larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogeneous groups of loans, loan portfolio concentrations, and other subjective considerations are among other factors. Because of these subjective factors, the process utilized to determine each element of the allowance for credit losses by specific loan category has some imprecision. As such, the Company estimates a range of inherent losses in the portfolio based on statistical analyses and management judgment, and maintains an allowance available for other factors that is related to but not allocated to a specific loan category. A statistical analysis attempts to measure the extent of imprecision and other uncertainty by determining the volatility of losses over time across loan categories. Also, management judgmentally considers loan concentrations, risks associated with specific industries, the stage of the business cycle, economic conditions and other qualitative factors. Based on this process, the amount of the allowance available for other factors was $701 million at December 31, 2006, compared with $725 million at December 31, 2005, and $685 million

Table 17 ELEMENTS OF THE ALLOWANCE FOR CREDIT LOSSES

	Allowance Amount					Allowance as a Percent of Ending Loan Balances				
December 31 (Dollars in Millions)	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
COMMERCIAL										
Commercial	$ 665	$ 656	$ 664	$ 696	$ 776	1.64%	1.73%	1.89%	2.08%	2.12%
Lease financing	90	105	106	90	108	1.62	2.06	2.14	1.80	2.01
Total commercial	755	761	770	786	884	1.63	1.77	1.92	2.04	2.11
COMMERCIAL REAL ESTATE										
	126	115	131	170	153	.64	.57	.64	.82	.75

Commercial mortgages										
Construction and development	74	53	40	59	53	.83	.65	.55	.89	.81
Total commercial real estate	200	168	171	229	206	.70	.59	.62	.84	.77
RESIDENTIAL MORTGAGES	58	39	33	33	34	.27	.19	.21	.25	.35
RETAIL										
Credit card	298	284	283	268	272	3.44	3.98	4.29	4.52	4.80
Retail leasing	15	24	44	47	44	.22	.33	.61	.78	.77
Home equity and second mortgages	52	62	88	101	115	.33	.41	.59	.76	.85
Other retail	177	188	195	235	269	1.08	1.26	1.48	1.89	2.35
Total retail	542	558	610	651	700	1.14	1.26	1.46	1.73	1.93
Total allocated allowance	1,555	1,526	1,584	1,699	1,824	1.08	1.12	1.27	1.46	1.59
Available for other factors	701	725	685	670	598	.49	.53	.55	.57	.52
Total allowance	$ 2,256	$ 2,251	$ 2,269	$ 2,369	$ 2,422	1.57%	1.65%	1.82%	2.03%	2.11%

at December 31, 2004. At December 31, 2006, approximately $669 million was related to estimated imprecision or uncertainty as described above. Of this amount, commercial and commercial real estate represented approximately 69 percent while residential and retail loans represented approximately 31 percent. The remaining allowance available for other factors of $32 million was related to concentration risk, including risks associated with the residential construction and residential mortgage markets, relative size of the consumer finance and commercial real estate portfolios, highly leveraged enterprise-value credits and other qualitative factors. Given the many subjective factors affecting the credit portfolio, changes in the allowance for other factors may not directly coincide with changes in the risk ratings or the credit portfolio.

Although the Company determines the amount of each element of the allowance separately and this process is an important credit management tool, the entire allowance for credit losses is available for the entire loan portfolio. The actual amount of losses incurred can vary significantly from the estimated amounts.

Residual Value 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. Commercial lease originations are subject to the same well-defined underwriting standards referred to in the Credit Risk Management section which includes an evaluation of the residual risk. Retail lease residual risk is mitigated further by originating longer-term vehicle leases and effective end-of-term marketing of off-lease vehicles. Also, to reduce the financial risk of potential changes in vehicle residual values, the Company maintains residual value insurance. The catastrophic insurance maintained by the Company provides for the potential recovery of losses on individual vehicle sales in an amount equal to the difference between: (a) 105 percent or 110 percent of the average wholesale auction price for the vehicle at the time of sale and (b) the vehicle residual value specified by the Automotive Lease Guide (an authoritative industry source) at the inception of the lease. The potential recovery is calculated for each individual vehicle sold in a particular policy year and is reduced by any gains realized on vehicles sold during the same period. The Company will receive claim proceeds under this insurance program if, in the aggregate, there is a net loss for such period. In addition, the Company obtains separate residual value insurance for all vehicles at lease inception where end of lease term settlement is based solely on the residual value of the individual leased vehicles. Under this program, the potential recovery is computed for each individual vehicle sold and does not allow the insurance carrier to offset individual determined losses with gains from other leases. This individual vehicle coverage is included in the calculation of minimum lease payments when making the capital lease assessment. To reduce the risk associated with collecting insurance claims, the Company monitors the financial viability of the insurance carrier based on insurance industry ratings and available financial information.

Included in the retail leasing portfolio was approximately $4.3 billion of retail leasing residuals at December 31, 2006 and 2005. The Company monitors concentrations of leases by manufacturer and vehicle make and model. As of December 31, 2006, vehicle lease residuals related to sport utility vehicles were 42.7 percent of the portfolio while luxury and mid-range vehicle classes represented approximately 23.4 percent and 11.8 percent, respectively. At year-end 2006, the largest vehicle-type concentration represented approximately 7.2 percent of the aggregate residual value of the vehicles in the portfolio. No other vehicle-type exceeded five percent of the aggregate residual value of the portfolio. Because retail residual valuations tend to be less volatile for longer-term leases, relative to the estimated residual at inception of the lease, the Company actively manages lease origination production to achieve a longer-term portfolio. At December 31, 2006, the weighted-average origination term of the portfolio was 50 months. During the past several years, new vehicles sales volumes experienced strong growth driven by manufacturer incentives, consumer spending levels and strong economic conditions. In 2006, sales of new cars have softened somewhat relative to a year ago. In part, this is due to domestic manufacturers reducing sales incentives to consumers. This softness in new vehicle sales became more pronounced during the latter part of 2006. Current expectations are that sales of new vehicles will trend downward in 2007. Given that manufacturers inventories of vehicles have declined somewhat during this period, this trend in sales should provide support of residual valuations. With respect to used vehicles, wholesale values for automobiles during 2004 and 2005 performed better than wholesale values for trucks resulting in car prices becoming somewhat inflated and truck prices declining over this period. This has led to a shift in the comparative performance of these two segments, resulting in car values experiencing a decrease of 2.7 percent in 2006, while truck values have experienced an improvement of 1.1 percent over the same timeframe. Sport utility and truck values have also recovered somewhat due to the impact of declining gas prices from earlier in the year. The overall stability in the used car marketplace combined with the mix of the Company s lease residual portfolio have caused the exposure to retail lease residual impairments to be relatively stable relative to a year ago.

At December 31, 2006, the commercial leasing portfolio had $636 million of residuals, compared with $678 million at December 31, 2005. At year-end 2006, lease residuals related to trucks and other transportation equipment were 26.4 percent of the total residual portfolio. Railcars represented 18.6 percent of the aggregate portfolio, while business and office equipment and aircraft were 18.3 percent and 13.5 percent, respectively. No other significant concentrations of more than 10 percent existed at December 31, 2006. In 2006, residual values in general remained stable or were favorable. The transportation industry residual values improved for marine, rail and corporate aircraft. Commercial aircraft continues to experience lower values due to the abundance of supply and technological efficiencies on newer models.

Operational Risk Management Operational risk represents the risk of loss resulting from the Company s operations, including, but not limited to, the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity.

The Company operates in many different businesses in diverse markets and relies on the ability of its employees and systems to process a high number of transactions. Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Company s objectives. In the event of a breakdown in the internal control system, improper operation of systems or improper employees actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation.

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 operating 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. Business managers maintain a system of controls with the objective of providing proper transaction authorization and execution, proper system operations, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data. Business managers ensure that the controls are appropriate and are implemented as designed.

Each business line within the Company has designated risk managers. These risk managers are responsible for, among other things, coordinating the completion of ongoing risk assessments and ensuring that operational risk management is integrated into business decision-making activities. Business continuation and disaster recovery planning is also critical to effectively manage operational risks. Each business unit of the Company is required to develop, maintain and test these plans at least annually to ensure that recovery activities, if needed, can support mission critical functions including technology, networks and data centers supporting customer applications and business operations. The Company s internal audit function validates the system of internal controls through risk-based, regular and ongoing audit procedures and reports on the effectiveness of internal controls to executive management and the Audit Committee of the Board of Directors.

Customer-related business conditions may also increase operational risk or the level of operational losses in certain transaction processing business units, including merchant processing activities. Ongoing risk monitoring of customer activities and their financial condition and operational processes serve to mitigate customer-related operational risk. Refer to Note 21 of the Notes to Consolidated Financial Statements for further discussion on merchant processing.

While the Company believes that it has designed effective methods to minimize operational risks, there is no absolute assurance that business disruption or operational losses would not occur in the event of a disaster. On an ongoing basis, management makes process changes and investments to enhance its systems of internal controls and business continuity and disaster recovery plans.

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 an 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. The monthly analysis incorporates substantially all of the Company s assets and liabilities and off-balance sheet instruments, together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. 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 in 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. This simulation includes assumptions about how the balance sheet is likely to be affected by changes in loan and deposit growth. Assumptions are made to project interest rates for new loans and deposits based on historical analysis, management s outlook and repricing strategies. These assumptions are validated on a periodic basis. A sensitivity analysis is provided for key variables of the simulation. The results are reviewed by ALPC monthly and are used to guide asset/liability management strategies.

The table below summarizes the interest rate risk of net interest income based on forecasts over the succeeding 12 months. At December 31, 2006, the Company s overall interest rate risk position was liability sensitive to changes in interest rates. The Company manages its interest rate risk position by holding assets on the balance sheet with desired interest rate risk characteristics, implementing certain pricing strategies for loans and deposits and through the selection of derivatives and various funding and investment portfolio strategies. 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 December 31, 2006 and 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 December 31, 2006. The up 200 basis point scenario resulted in a 6.7 percent decrease in the market value of equity at December 31, 2006, compared with a 6.8 percent decrease at December 31, 2005. The down 200 basis point scenario resulted in a 1.8 percent decrease in the market value of equity at December 31, 2006, compared with a 4.1 percent decrease at December 31, 2005. At December 31, 2006 and 2005, the Company was within its policy guidelines.

The valuation analysis is dependent upon certain key assumptions about the nature of assets and liabilities with non-contractual maturities. Management estimates the average life and rate characteristics of asset and liability accounts based upon historical analysis and management s expectation of rate behavior. These assumptions are validated on a periodic basis. A sensitivity analysis of key variables of the valuation analysis is provided to ALPC monthly and is used to guide asset/liability management strategies. 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 1.8 years at December 31, 2006, compared with 1.6 years at December 31, 2005. The duration of liabilities was 1.9 years at December 31, 2006, compared with 1.6 years at December 31, 2005. At December 31, 2006, the duration of equity was 1.6 years, compared with 1.8 years at December 31, 2005. The duration of equity measure shows that sensitivity of the market value of equity of the Company was liability sensitive to changes in interest rates.

Use of Derivatives to Manage Interest Rate and Other Risks In the ordinary course of business, the Company enters into derivative transactions to manage its interest rate, prepayment, credit and foreign currency risks (asset and liability management positions) and to accommodate the business requirements of its customers (customer-

SENSITIVITY OF NET INTEREST INCOME

	December 31, 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	.42%	(1.43)%	.92%	(2.95)%	.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.*

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Table 18 DERIVATIVE POSITIONS

ASSET AND LIABILITY MANAGEMENT POSITIONS

December 31, 2006 (Dollars in Millions)	Maturing 2007	2008	2009	2010	2011	Thereafter	Total	Fair Value	Weighted-Average Remaining Maturity In Years
INTEREST RATE CONTRACTS									
Receive fixed/pay floating swaps									
Notional amount	$ 630	$1,000	$	$	$1,500	$2,215	$ 5,345	$27	22.97
Weighted-average									
Receive rate	5.05%	5.80%	%	%	5.93%	6.34%	5.97%		
Pay rate	5.44	5.35			5.35	5.66	5.49		
Pay fixed/receive floating swaps									
Notional amount	$8,100	$2,000	$	$	$	$2,229	$12,329	$	2.33
Weighted-average									
Receive rate	5.34%	5.31%	%	%	%	5.39%	5.34%		
Pay rate	4.59	5.18				5.26	4.81		
Futures and forwards									
Buy	$ 8	$	$	$	$	$	$ 8	$	.07
Sell	6,816						6,816	3	.17
Options									
Written	$7,544	$	$	$	$	$	$ 7,544	$ (1)	.13
FOREIGN EXCHANGE CONTRACTS									
Cross-currency swaps									
Notional amount	$	$	$	$	$	$ 386	$ 386	$14	8.61
Weighted-average									
Receive rate	%	%	%	%	%	3.80%	3.80%		
Pay rate						5.54	5.54		
Forwards	$ 318	$	$	$	$	$	$ 318	$ 1	.02
EQUITY CONTRACTS	$ 5	$	$ 52	$	$ 29	$	$ 86	$ 4	2.95
CREDIT DEFAULT SWAPS	$	$	$	$	$ 25	$	$ 25	$ (1)	4.72

CUSTOMER-RELATED POSITIONS

December 31, 2006 (Dollars in Millions)	Maturing 2007	2008	2009	2010	2011	Thereafter	Total	Fair Value	Weighted-Average Remaining Maturity In Years
INTEREST RATE CONTRACTS									
Receive fixed/pay floating swaps									
Notional amount	$1,167	$1,519	$1,152	$1,366	$1,074	$4,093	$10,371	$(42)	5.42
Pay fixed/receive floating swaps									
Notional amount	1,145	1,515	1,145	1,357	1,074	4,105	10,341	98	5.42
Options									
Purchased	812	269	469	125	197	27	1,899	5	1.92
Written	812	269	469	125	197	27	1,899	(3)	1.92
Risk participation agreements									
Purchased	33	3	34	6	18	112	206		6.62
Written	8	25	71	33	11	208	356		6.05
FOREIGN EXCHANGE RATE CONTRACTS									
Forwards, spots and swaps									
Buy	$1,819	$ 119	$ 88	$ 51	$ 15	$	$ 2,092	$ 52	.46
Sell	1,759	117	91	51	15		2,033	(43)	.47
Options									
Purchased	408						408	(3)	.44
Written	408						408	3	.44

related positions). To manage its interest rate risk, the Company may enter into interest rate swap agreements and interest rate options such as caps and floors. Interest rate swaps involve the exchange of fixed-rate and variable-rate payments without the exchange of the underlying notional amount on which the interest payments are calculated. Interest rate caps protect against rising interest rates while interest rate floors protect against declining interest rates. In connection with its mortgage banking operations, the Company enters into forward commitments to sell mortgage loans related to fixed-rate mortgage loans held for sale and fixed-rate mortgage loan commitments. The Company also acts as a seller and buyer of interest rate contracts and foreign exchange rate contracts on behalf of customers. The Company minimizes its market and liquidity risks by taking similar offsetting positions.

All interest rate derivatives that qualify for hedge accounting are recorded at fair value as other assets or liabilities on the balance sheet and are designated as either fair value or cash flow hedges. The Company performs an assessment, both at inception and quarterly thereafter, when required, to determine whether these derivatives are highly effective in offsetting changes in the value of the hedged items. Hedge ineffectiveness for both cash flow and fair value hedges is recorded in noninterest income. Changes in the fair value of derivatives designated as fair value hedges, and changes in the fair value of the hedged items, are recorded in earnings. Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income until income from the cash flows of the hedged items is realized. Customer-related interest rate swaps, foreign exchange rate contracts, and all other derivative contracts that do not qualify for hedge accounting are recorded at fair value and resulting gains or losses are recorded in trading account gains or losses or mortgage banking revenue. Gains or losses on customer-related derivative positions were not material in 2006.

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company s $32.9 billion of total notional amount of asset and liability management derivative positions at December 31, 2006, $24.1 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 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. The Company commits to sell the loans at specified prices in a future period, typically within 90 days. The Company is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market. Related to its mortgage banking operations, the Company held $1.4 billion of forward commitments to sell mortgage loans and $1.3 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 18. Beginning in March 2006, the Company entered into U.S. Treasury futures and options on U.S. Treasury futures contracts to economically hedge the change in fair value related to the election of fair value measurement for its residential MSRs.

Derivative instruments are also subject to credit risk associated with counterparties to the derivative contracts. Credit risk associated with derivatives is measured based on the replacement cost should the counterparties with contracts in a gain position to the Company fail to perform under the terms of the contract. The Company manages this risk through diversification of its derivative positions among various counterparties, requiring collateral agreements with credit-rating thresholds, entering into master netting agreements in certain cases and entering into interest rate swap risk participation agreements. These agreements transfer the credit risk related to interest rate swaps from the Company to an unaffiliated third-party. The Company also provides credit protection to third-parties with risk participation agreements, for a fee, as part of a loan syndication transaction.

At December 31, 2006, the Company had $83 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 next 12 months is a loss of $29 million.

The change in fair value of forward commitments attributed to hedge ineffectiveness recorded in noninterest income was a decrease of $3 million and $4 million in 2006 and 2005, respectively. The change in the fair value of all other asset and liability management derivative positions attributed to hedge ineffectiveness was not material for 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 2006 was not material.

Table 18 summarizes information on the Company s derivative positions at December 31, 2006. Refer to Notes 1 and 19 of the Notes to Consolidated Financial Statements for significant accounting policies and additional information regarding the Company s use of derivatives.

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. These trading activities principally support the risk management processes of the Company s customers including their management of foreign currency and interest rate risks. The Company also manages market risk of non-trading business activities including its MSRs and loans held-for-sale. 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.

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Table 19 DEBT RATINGS

	Moody s	Standard & Poor s	Fitch	Dominion Bond Rating Service
U.S. BANCORP				
Short-term borrowings			F1+	R-1 (middle)
Senior debt and medium-term notes	Aa2	AA	AA-	AA
Subordinated debt	Aa3	AA-	A+	AA (low)
Preferred stock	A1	A+	A+	
Commercial paper	P-1	A-1+	F1+	R-1 (middle)
U.S. BANK NATIONAL ASSOCIATION				
Short-term time deposits	P-1	A-1+	F1+	R-1 (high)
Long-term time deposits	Aa1	AA+	AA	AA (high)
Bank notes	Aa1/P-1	AA+/A-1+	AA-/F1+	AA (high)
Subordinated debt	Aa2	AA	A+	AA
Commercial paper	P-1	A-1+	F1+	R-1 (high)

VaR modeling of trading activities is subject to certain limitations. Additionally, it should be recognized that there are assumptions and estimates associated with VaR modeling, and actual results could differ from those assumptions and estimates. The Company mitigates these uncertainties through regular monitoring of trading activities by management and other risk management practices, including stop-loss and position limits related to its trading activities. Stress-test models are used to provide management with perspectives on market events that VaR models do not capture.

The Company establishes market risk limits, subject to approval by the Company s Board of Directors. Due to the election of fair value measurement of its residential MSRs and related hedging strategy during 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 VaR limits were $3 million and $37 million at December 31, 2006, for trading and non-trading market risk, respectively. The Company s market valuation risk, as estimated by the VaR analysis, was $1 million and $30 million at December 31, 2006, compared with $1 million and less than $1 million at December 31, 2005, for trading and non-trading positions, respectively.

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. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. Ultimately, public confidence is generated through profitable operations, sound credit quality and a strong capital position. The Company s performance in these areas has enabled it to develop a large and reliable base of core funding within its market areas and in domestic and global capital markets. 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.

The Company maintains strategic liquidity and contingency plans that are subject to the availability of asset liquidity in the balance sheet. Monthly, ALPC reviews the Company s ability to meet funding requirements due to adverse business events. These funding needs are then matched with specific asset-based sources to ensure sufficient funds are available. Also, strategic liquidity policies require diversification of wholesale funding sources to avoid concentrations in any one market source. Subsidiary companies are members of various Federal Home Loan Banks that provide a source of funding through FHLB advances. The Company maintains a Grand Cayman branch for issuing eurodollar time deposits. The Company also issues commercial paper through its Canadian branch. In addition, the Company establishes relationships with dealers to issue national market retail and institutional savings certificates and short- and medium-term bank notes. The Company s subsidiary banks also have significant correspondent banking networks and corporate accounts. Accordingly, the Company has access to national fed funds, funding through repurchase agreements and sources of stable, regionally-based certificates of deposit and commercial paper.

The Company s ability to raise negotiated funding at competitive prices is influenced by rating agencies views of the Company s credit quality, liquidity, capital and earnings. On September 13, 2006, Fitch revised the Company s outlook to Positive . On October 26, 2006, Dominion Bond Rating Service upgraded the Company s senior and unsecured subordinated debt ratings to AA and

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Table 20 CONTRACTUAL OBLIGATIONS

	Payments Due By Period				
December 31, 2006 (Dollars in Millions)	One Year or Less	Over One Through Three Years	Over Three Through Five Years	Over Five Years	Total
CONTRACTUAL OBLIGATIONS					
Long-term debt (a)	$8,337	$ 10,543	$ 5,605	$13,117	$37,602
Capital leases	11	20	19	43	93
Operating leases	175	305	232	442	1,154
Purchase obligations	151	195	55	22	423
Benefit obligations (b)	37	90	94	238	459
Total	$8,711	$ 11,153	$ 6,005	$13,862	$39,731

(a) *In the banking industry, interest-bearing obligations are principally utilized to fund interest-bearing assets. As such, interest charges on related contractual obligations were excluded from reported amounts as the potential cash outflows would have corresponding cash inflows from interest-bearing assets.*

(b) *Amounts only include obligations related to the unfunded non-qualified pension plan and post-retirement medical plans.*

AA(low), respectively, from AA(low) and A(high), respectively. On February 14, 2007, Standard & Poor s Ratings Services upgraded the Company s credit ratings to AA/A-1+. At February 14, 2007, the credit ratings outlook for the Company was considered Positive by Fitch and Stable by Standard & Poor s Ratings Services, Moody s Investors Service and Dominion Bond Ratings Service. The debt ratings noted in Table 19 reflect the rating agencies recognition of the Company s sector-leading core earnings performance and lower credit risk profile.

The parent company s routine funding requirements consist primarily of operating expenses, dividends paid to shareholders, debt service, repurchases of common stock and funds used for acquisitions. The parent company obtains funding to meet its obligations from dividends collected from its subsidiaries and the issuance of debt securities.