DONEGAL GROUP INC
Form SC 13D/A
April 27, 2004

OMB APPROVAL
OMB Number: 3235-0145
Expires: December 31, 2005
Estimated average burden hours per response...11

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

SCHEDULE 13D/A

Under the Securities Exchange Act of 1934
(Amendment No. 13)*

DONEGAL GROUP INC.

(Name of Issuer)

Class A Common Stock, $.01 par value per share
Class B Common Stock, $.01 par value per share

(Title of Class of Securities)

Class A Common Stock - 257701 20 1
Class B Common Stock - 257701 30 0

(Cusip Number)

Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary
Donegal Mutual Insurance Company
1195 River Road, Marietta, Pennsylvania 17547
(717) 426-1931

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

December 1, 2003

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 257701 20 1 and 257701 30 0

1.	Name of Reporting Person: Donegal Mutual Insurance Company	I.R.S. Identification Nos. of above persons (entities only): 23-1336198
2.	Check the Appropriate Box if a Member of a Group (See Instructions): (a) o (b) o	
3.	SEC Use Only:	
4.	Source of Funds (See Instructions): OO	
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e): o	
6.	Citizenship or Place of Organization: Pennsylvania	

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power: 4,139,792 shares of Class A Common Stock and 1,937,107 shares of Class B Common Stock
	8.	Shared Voting Power: N/A
	9.	Sole Dispositive Power: 4,139,792 shares of Class A Common Stock and 1,937,107 shares of Class B Common Stock
	10.	Shared Dispositive Power: N/A

11. Aggregate Amount Beneficially Owned by Each Reporting Person:
4,139,792 shares of Class A Common Stock and 1,937,107 shares of Class B Common Stock

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions):
o

13. Percent of Class Represented by Amount in Row (11):
41.5% of Class A Common Stock and 62.6% of Class B Common Stock%

14. Type of Reporting Person (See Instructions):
IC HC

Item 2. Identity and Background.

Item 2 is hereby supplemented and restated to read in its entirety, as supplemented and restated, as follows:

The principal place of business and principal office of Donegal Mutual Insurance Company (the Mutual Company), a Pennsylvania mutual insurance company, the entity filing this Schedule 13D, is located at 1195 River Road, Marietta, Pennsylvania 17547. The names of the Mutual Company s executive officers and directors are as follows: Donald H. Nikolaus, Ralph G. Spontak, Cyril J. Greenya, Robert G. Shenk, William H. Shupert, Daniel J. Wagner, Patricia A. Gilmartin, Philip H. Glatfelter, II, John E. Hiestand, R. Richard Sherbahn, Kevin M. Kraft, Sr. and Frederick W. Dreher. Such persons can be contacted through the Mutual Company at 1195 River Road, Marietta, Pennsylvania 17547.

Mr. Nikolaus has been President and Chief Executive Officer of the Mutual Company since 1981 and a Director of the Mutual Company since 1972. Mr. Nikolaus has been President and Chief Executive Officer of DGI since 1986. Mr. Nikolaus has been a partner in the law firm of Nikolaus & Hohenadel since 1972.

Mr. Spontak has served as Senior Vice President of the Mutual Company and DGI since 1991, Chief Financial Officer of the Mutual Company and DGI since 1983, Secretary of the Mutual Company and DGI since 1988 and a Director of the Mutual Company since September 1993.

Mr. Greenya has been Senior Vice President, Underwriting of the Mutual Company since December 1997, was Vice President, Commercial Underwriting of the Mutual Company from 1992 until December 1997 and served as Manager, Commercial Underwriting of the Mutual Company from 1983 to 1992.

Mr. Shenk has been Senior Vice President, Claims of the Mutual Company since December 1997, was Vice President, Claims of the Mutual Company from 1992 until December 1997 and served as Manager, Casualty Claims of the Mutual Company from 1985 to 1992.

Mr. Shupert has been Senior Vice President, Underwriting of the Mutual Company since 1991 and served as Vice President, Underwriting of the Mutual Company for 18 years prior thereto. Mr. Shupert has been a Director of the Mutual Company since December 1996.

Mr. Wagner has been a Vice President and Treasurer of the Mutual Company since 1993 and served as Controller of the Mutual Company for five years prior thereto.

Mrs. Gilmartin has been an employee since 1969 of Donegal Insurance Agency, which is not affiliated with the Mutual Company or DGI, except that Donegal Insurance Agency receives insurance commissions in the ordinary course of business from DGI s subsidiaries and affiliates in accordance with such subsidiaries and affiliates standard commission schedules and agency contracts. Mrs. Gilmartin has been a Director of the Mutual Company since 1979.

Mr. Glatfelter retired in 1989 as a Vice President of Meridian Bank, a position he held for more than five years prior to his retirement. Mr. Glatfelter has been a Director of the Mutual Company since 1981, was Vice Chairman of the Mutual Company from 1991 to 2001 and has been Chairman of the Board of DGI and the Mutual Company since 2001.

Mr. Hiestand has been President of Hiestand Memorials, Inc. since 1977 and a Director of the Mutual Company since 1983.

Mr. Sherbahn has owned and operated Sherbahn Associates, Inc., a life insurance and financial planning firm, since 1974. Mr. Sherbahn has been a Director of the Mutual Company since 1967.

Mr. Kraft is the President of Clyde W. Kraft Funeral Home, Inc. He has been a director of the Mutual Company since 2003.

Mr. Dreher has been a partner in the law firm of Duane Morris LLP since 1970 and a Director of the Mutual Company since December 1996.

In addition to the positions described above, the following individuals also serve as directors of DGI: Donald H. Nikolaus, Patricia A. Gilmartin, Philip H. Glatfelter, II and R. Richard Sherbahn. The other directors of DGI are Robert S. Bolinger and John J. Lyons. All of these individuals have been directors of DGI since DGI s formation in August 1986, except for Mr. Lyons, who has been a director since 2001.

All of the executive officers and directors of the Mutual Company are citizens of the United States of America. Neither the Mutual Company nor any of its executive officers or directors has, during the last five years, been convicted in a criminal proceeding (other than traffic violations and similar misdemeanors). Neither the Mutual Company nor any of its executive officers or directors has, during the last five years, been subject to any judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws as a result of any civil proceeding of a judicial or administrative body of competent jurisdiction.

Item 3. Source and Amount of Funds or Other Consideration.

Item 3 is hereby supplemented to read in its entirety, as supplemented, as follows:

Pursuant to the Donegal Group Inc. Dividend Reinvestment and Stock Purchase Plan (the Dividend Reinvestment Plan), the Mutual Company purchased shares of Class A Common Stock at the per share and aggregate cost as set forth in the following table:

Date of Purchase	**Number of Shares of Class A Common Stock**	**Price Per Share (1)**	**Total Cost**
May 15, 2003	23,928	13.17	$315,208.78

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Date of Purchase	Number of Shares of Class A Common Stock	Price Per Share (1)	Total Cost
August 15, 2003	17,974	16.69	300,000.01
November 17, 2003	14,249	19.30	275,000.00

(1) Represents the average of the closing prices per share of Class A Common Stock on the Nasdaq National Market[SM] for the five trading days preceding the date of purchase, as determined in accordance with the terms of the Dividend Reinvestment Plan.

Item 5. Interest in Securities of the Issuer.

Item 5 is hereby supplemented and restated to read in its entirety, as supplemented and restated, as follows:

(a) As of February 20, 2004, the following persons and entity beneficially owned the number of shares of Class A Common Stock and Class B Common Stock set forth opposite their respective names:

Name of Individual or Identity of Group	Class A Shares Beneficially Owned(1)	Percent of Outstanding Class A Shares(2)	Class B Shares Beneficially Owned(1)	Percent of Outstanding Class B Shares(2)
Donegal Mutual Insurance Company 1195 River Road Marietta, Pennsylvania 17547	4,139,792	42.2%	1,852,088	61.5%
Directors of DGI:				
Donald H. Nikolaus	367,630(3)	3.7%	104,071(3)	3.5%
Robert S. Bolinger	3,824(11)		816	
Patricia A. Gilmartin	4,200(11)		1,004	
Philip H. Glatfelter, II	5,932(11)		1,843	
John J. Lyons	16,517(11)(4)		500	
R. Richard Sherbahn	2,968(11)		381	
Executive Officers of the Mutual Company and DGI (5):				
Ralph G. Spontak	100,103(6)	1.0	17,982(6)	1.3%
Robert G. Shenk	59,811(7)		11,429(7)	
Cyril J. Greenya	33,833(8)		5,795(8)	
Daniel J. Wagner	22,021(9)		6,760(9)	
Directors of the Mutual Company (10):				
Frederick W. Dreher	15,136(11)		5,834(11)	

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Name of Individual or Identity of Group	Class A Shares Beneficially Owned(1)	Percent of Outstanding Class A Shares(2)	Class B Shares Beneficially Owned(1)	Percent of Outstanding Class B Shares(2)
John E. Hiestand	3,738(11)		488(11)	

(1) Information furnished by each individual named. This table includes shares that are owned jointly, in whole or in part, with the person s spouse, or individually by his spouse.

(2) Less than 1% unless otherwise indicated.

(3) Includes 216,667 shares of Class A Common Stock and 33,333 shares of Class B Common Stock that Mr. Nikolaus has the option to purchase under stock options granted by DGI that are currently exercisable.

(4) Includes 6,667 shares of Class A Common Stock that Mr. Lyons has the option to purchase under stock options granted by DGI that are currently exercisable.

(5) Excludes Executive Officers listed under Directors of DGI.

(6) Includes 81,667 shares of Class A Common Stock and 13,333 shares of Class B Common Stock that Mr. Spontak has the option to purchase under stock options granted by DGI that are currently exercisable.

(7) Includes 51,667 shares of Class A Common Stock and 8,333 shares of Class B Common Stock that Mr. Shenk has the option to purchase under stock options granted by DGI that are currently exercisable.

(8) Includes 32,334 shares of Class A Common Stock and 5,333 shares of Class B Common Stock that Mr. Greenya has the option to purchase under stock options granted by DGI that are currently exercisable.

(9) Includes 21,667 shares of Class A Common Stock and 3,333 shares of Class B Common Stock that Mr. Wagner has the option to purchase under stock options granted by DGI that are currently exercisable.

(10) Excludes Directors listed under Directors of DGI and Executive Officers of the Mutual Company and DGI.

(11) Includes 1,667 shares of Class A Common Stock the director has the option to purchase under stock options granted by us that are currently exercisable.

(b) Each of the persons together with his or her spouse, as applicable, and the entity described in Item 5(a) have sole voting power and sole dispositive power over all of the shares described in Item 5(a).

(c) Reference is made to Item 3 hereof.

To the knowledge of the Mutual Company, none of the persons named in Item 5(a) has purchased or disposed of any shares of capital stock of DGI during the 60 days preceding April 1, 2004, except (i) purchases by the Mutual Company pursuant to the Dividend Reinvestment Plan as set forth in Item 3, (ii) purchases by directors pursuant to the Dividend Reinvestment Plan and (ii) the purchases as set forth in the following table:

Identity of Person who Effected the Transaction	Date of Transaction	Amount of Securities	Class of Securities	Price Per Share	How the Transaction was Effected
Donald H. Nikolaus	2/7/2004	3.636	A	$22.966	Acquisition Dividend reinvestment.
	2/17/2004	191.784	A	22.966	Acquisition Dividend reinvestment.
	2/17/2004	303.674	A	23.40	Acquisition 401(k) pension/profit sharing.
	2/17/2004	121.245	A	23.95	Acquisition 401(k) pension/profit sharing.
Ralph G. Spontak	3/19/2004	13,333	B	8.00	Acquisition Exercise of options.
	3/19/2004	13,333	B	21.36	Disposition Open market or private sale of non-derivative or derivative security
Robert G. Shenk	3/11/2004	8,333	B	8.00	Acquisition Exercise of options.
	3/11/2004	8,333	B	21.17	Disposition Open market or private sale of non-derivative or derivative security.
Daniel J. Wagner	3/4/2004	3,333	B	20.59	Disposition Open market or private sale of non-derivative or derivative security.
	3/4/2004	3,333	B	8.00	Acquisition Exercise of options.
	3/4/2004	3,333	B	20.38	Disposition Open market or private sale of non-derivative or derivative security.
	3/5/2004	6,667	A	8.00	Acquisition Exercise of options.

	3/5/2004	6,667	A	21.08	Disposition Open market or private sale of non-derivative or derivative security.
Donegal Mutual Insurance Co.	2/26/2004	17,329	B	20.48	Acquisition Open market or private purchase of non-derivative or derivative security.
	2/27/2004	5,332	B	20.44	Acquisition Open market or private

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Identity of Person who Effected the Transaction	Date of Transaction	Amount of Securities	Class of Securities	Price Per Share	How the Transaction was Effected
					purchase of non-derivative or derivative security.
	3/2/2004	16,331	B	20.10	Acquisition Open market or private purchase of non-derivative or derivative security.
	3/4/2004	15,331	B	20.38	Acquisition Open market or private purchase of non-derivative or derivative security.
	3/5/2004	1,000	B	20.55	Acquisition Open market or private purchase of non-derivative or derivative security.
	3/9/2004	3,333	B	20.59	Acquisition Open market or private purchase of non-derivative or derivative security.
	3/9/2004	2,665	B	21.11	Acquisition Open market or private purchase of non-derivative or derivative security.
	3/10/2004	666	B	21.21	Acquisition Open market or private purchase of non-derivative or derivative security.
	3/11/2004	8,333	B	21.17	Acquisition Open market or private purchase of non-derivative or

				derivative security.
3/11/2004	700	B	21.17	Acquisition Open market or private purchase of non-derivative or derivative security.

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Identity of Person who Transaction Effected the	Date of Transaction	Amount of Securities	Class of Securities	Price Per Share	How the Transaction was Effected
	3/12/2004	666	B	21.13	Acquisition Open market or private purchase of non-derivative or derivative security.
	3/19/2004	13,333	B	21.36	Acquisition Open market or private purchase of non-derivative or derivative security.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

DONEGAL MUTUAL INSURANCE COMPANY

By: /s/Ralph G. Spontak

Ralph G. Spontak, Senior Vice President, Chief Financial Officer and Secretary

Dated: April 27, 2004

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(76.5)

Investment products fees and commissions	38	39	(2.6)
Securities losses, net		(59)	*
Other	231	154	50.0
Total noninterest income	$1,614	$1,382	16.8%

* *Not meaningful*

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Other income was higher in the first quarter of 2006, primarily due to trading gains on interest rate swap derivatives, end-of-term retail lease residual value improvement, higher student loan sales gains and the receipt of a favorable settlement within the merchant processing business. In light of recent interpretations with respect to the application of accounting rules related to derivatives, the Company conducted a review during the first quarter of 2006 of all its derivatives utilized for hedging purposes. As a result of this review, the Company identified certain interest rate swaps designated as cash flow hedges that either did not have adequate documentation at the date of hedge inception or inappropriately utilized the short-cut method under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities . As such, the Company determined that changes in the market value of these derivatives, since their inception, should have been recorded as trading income despite the fact that these swaps were economically effective. The annual impact to net income of these errors for the years ended December 31, 2005, 2004 and 2003, was .4 percent, .8 percent and .8 percent, respectively. The Company evaluated the impact of these hedge accounting practices on its financial statements for all quarterly and annual periods during the three years ended December 31, 2005, and concluded that the impact of these errors was not material to each of these financial statements. However, the Company determined that it was appropriate to correct the accounting practices and record the cumulative impact of these errors during the first quarter of 2006, resulting in a $44 million trading gain in other noninterest income. Of this amount, approximately $14 million was related to changes in fair value since January 1, 2006. Management has concluded that the cumulative effect was also not material to the financial results of the Company for the interim period ended March 31, 2006.

Favorable changes in fee-based revenue were offset by a decline in investment products fees and commissions and mortgage banking revenue. The decline in mortgage banking revenue was principally driven by the adoption of the fair value method of accounting for MSRs ($64 million) and lower gains from sales of residential mortgage loan production.

Noninterest Expense Noninterest expense was $1,500 million in the first quarter of 2006, an increase of $169 million (12.7 percent) from the first quarter of 2005. The increase in expense in the first quarter of 2006, compared with the first quarter of 2005, reflected the impact of business acquisitions and related integration costs and the adoption of the new accounting standards. Compensation expense was higher year-over-year in the first quarter of 2006, principally due to business expansion, including the Company s payment processing businesses, the acquisition of Wachovia Corporation s corporate and institutional trust business and other growth initiatives, as well as incremental expense related to the immediate expense recognition of the value of stock awards granted to retiree-eligible employees. Employee benefits increased year-over-year primarily as a result of higher pension costs, payroll taxes and employer-related benefit costs. Net occupancy and equipment expense increased in the first quarter of 2006 from the same quarter of 2005 primarily due to business expansion. Technology and communications expense rose due to increased software expense and higher outside data processing expense principally associated with the expansion in the trust business and implementing a prepaid gift card program in late 2005. Intangible expense increased

Table 3 Noninterest Expense

	Three Months Ended March 31,		
(Dollars in Millions)	2006	2005	Percent Change
Compensation	$633	$567	11.6%
Employee benefits	133	116	14.7
Net occupancy and equipment	165	154	7.1
Professional services	35	36	(2.8)
Marketing and business development	40	43	(7.0)
Technology and communications	117	106	10.4

Postage, printing and supplies	66	63	4.8
Other intangibles	85	71	19.7
Other	226	175	29.1
Total noninterest expense	$1,500	$1,331	12.7%
Efficiency ratio (a)	44.9%	41.7%	

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

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year-over-year primarily due to acquisitions within the payment processing and trust businesses. In connection with adopting SFAS 156, the impact of eliminating amortization of MSRs was more than offset by MSR reparation of $54 million recognized in the first quarter of 2005. Other expense increased in the first quarter of 2006 from the same quarter of 2005, primarily due to the increased investments in tax-advantaged projects relative to a year ago, increased fraud losses and business integration costs.

Income Tax Expense The provision for income taxes was $561 million (an effective rate of 32.7 percent) for the first quarter of 2006, compared with $552 million (an effective rate of 34.0 percent) for the first quarter of 2005. The decline in the effective rate from the first quarter of 2005 was primarily due to higher tax exempt income and tax credit investments. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s total loan portfolio was $138.8 billion at March 31, 2006, compared with $137.8 billion at December 31, 2005, an increase of $1.0 billion (.7 percent). The increase in total loans was driven by growth in commercial loans and commercial real estate loans, partially offset by decreases in retail loans and residential mortgages. The $.9 billion (2.1 percent) increase in commercial loans was primarily driven by new customer relationships, utilization under lines of credit, growth in commercial leasing and corporate payment card balances.

Commercial real estate loans were $28.8 billion at March 31, 2006, an increase of $.3 billion (1.1 percent) compared with December 31, 2005. The increase was driven by growth in both commercial mortgages and construction loans principally within the Company s large corporate and middle market sectors.

Residential mortgages held in the loan portfolio were $20.7 billion at both March 31, 2006, and December 31, 2005. During the first quarter of 2006, the Company began selling an increased proportion of its residential mortgage loan production and anticipates that balances will remain stable or decline slightly during the next several quarters.

Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, decreased $.2 billion (.4 percent) at March 31, 2006, compared with December 31, 2005. The decrease was primarily driven by declines in home equity lines and retail leasing, seasonal credit card activity and student loan sales, partially offset by increases in installment and home equity loans.

Investment Securities Investment securities, both available-for-sale and held-to-maturity, totaled $39.4 billion at March 31, 2006, compared with $39.8 billion at December 31, 2005, reflecting purchases of $1.9 billion of securities, more than offset by maturities and prepayments and the reclassification of $.5 billion of principal-only securities to the trading account effective January 1, 2006, in connection with the adoption of SFAS 156. As of March 31, 2006, and December 31, 2005, approximately 41 percent of the investment securities portfolio represented adjustable-rate financial instruments. Adjustable-rate financial instruments include variable-rate collateralized mortgage obligations, mortgage-backed securities, agency securities, adjustable-rate money market accounts and asset-backed securities.

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Table 4 Investment Securities

March 31, 2006 (Dollars in Millions)	Available-for-Sale Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)	Held-to-Maturity Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)
U.S. Treasury and agencies								
Maturing in one year or less	$98	$98	.5	4.62%	$	$		%
Maturing after one year through five years	39	39	2.5	6.17				
Maturing after five years through ten years	15	15	6.9	6.63				
Maturing after ten years	338	328	14.4	5.97				
Total	$490	$480	10.4	5.73%	$	$		%
Mortgage-backed securities (a)								
Maturing in one year or less	$300	$301	.7	5.61%	$	$		%
Maturing after one year through five years	18,985	18,362	3.7	4.61	8	8	3.0	5.08
Maturing after five years through ten years	13,012	12,510	7.3	5.08				
Maturing after ten years	4,785	4,794	13.9	6.06				
Total	$37,082	$35,967	6.2	4.97%	$8	$8	3.0	5.08%
Asset-backed securities (a)								
Maturing in one year or less	$9	$9	.7	5.32%	$	$		%
Maturing after one year through five years								

Maturing after five years through ten years								
Maturing after ten years								
Total	$9	$9	.7	5.32	$	$		%
Obligations of state and political subdivisions (b)								
Maturing in one year or less	$58	$58	.4	7.27%	$12	$12	.1	5.80%
Maturing after one year through five years	45	46	2.4	7.25	21	21	3.2	6.06
Maturing after five years through ten years	1,166	1,160	9.3	6.67	14	16	7.8	7.18
Maturing after ten years	512	503	14.6	6.42	39	40	16.0	6.08
Total	$1,781	$1,767	10.4	6.63%	$86	$89	9.4	6.22%
Other debt securities								
Maturing in one year or less	$348	$348	.1	4.03%	$4	$4	.4	6.18%
Maturing after one year through five years	20	20	1.4	4.06	11	11	3.2	5.61
Maturing after five years through ten years	15	15	10.0	5.74	1	1	6.0	5.15
Maturing after ten years	627	626	21.4	5.59				
Total	$1,010	$1,009	13.5	5.02%	$16	$16	2.7	5.74%
Other investments	$52	$54		%	$	$		%
Total investment securities (c)	$40,424	$39,286	6.7	5.06%	$110	$113	8.0	6.07%

(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.

	March 31, 2006		December 31, 2005	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$490	1.2%	$496	1.2%
Mortgage-backed securities	37,090	91.5	38,169	94.4
Asset-backed securities	9		12	.1
Obligations of state and political subdivisions	1,867	4.6	724	1.8
Other debt securities and investments	1,078	2.7	1,029	2.5
Total investment securities	$40,534	100.0%	$40,430	100.0%

Deposits Total deposits were $121.7 billion at March 31, 2006, compared with $124.7 billion at December 31, 2005, a decrease of $3.0 billion (2.4 percent). The decrease in total deposits was primarily the result of decreases in noninterest-bearing deposits and money market savings accounts, partially offset by increases in interest checking and other savings accounts. The $2.8 billion (8.8 percent) decrease in noninterest-bearing deposits was primarily due to seasonality of corporate trust and corporate banking deposits. The $1.2 billion (4.1 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 have migrated to fixed-rate time certificates, while larger customer money market savings accounts have migrated to time deposits greater than $100,000 as rates increased on the time deposit products. Interest checking accounts increased $.5 billion (2.3 percent) due to an increase in trust and custody balances and saving account balances increased $.4 billion (6.9 percent) due to an increase in consumer banking and private banking balances.

Borrowings The Company utilizes both short-term and long-term borrowings to fund growth of earning assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, securities sold under agreements to repurchase and other short-term borrowings, were $20.7 billion at March 31, 2006, compared with $20.2 billion at December 31, 2005. Short-term funding is managed within approved liquidity policies. The increase of $.5 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 $39.3 billion at March 31, 2006, compared with $37.1 billion at December 31, 2005, reflecting the issuances of $2.0 billion of bank notes and $1.3 billion of junior subordinated debentures and the addition of $.8 billion of Federal Home Loan Bank (FHLB) advances, partially offset by $1.6 billion of medium-term note maturities. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

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

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

In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors. Economic conditions during the first quarter of 2006 have improved from the first quarter of 2005, as reflected in

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strong expansion of the gross domestic product index, lower unemployment rates, favorable trends related to corporate profits and consumer spending for retail goods and services. Current economic conditions are relatively unchanged from December 31, 2005. The Federal Reserve Bank continued increasing short-term interest rates in an effort to prevent an acceleration of inflation and maintain the current rate of economic growth.

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

Loan Delinquencies Trends in delinquency ratios represent an indicator, among other considerations, of credit risk within the Company s loan portfolios. The entire balance of the account is considered delinquent if the minimum payment contractually required to be made is not received by the specified date on the billing statement. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $251 million at March 31, 2006, compared with $253 million at December 31, 2005. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status. The ratio of delinquent loans to total loans was .18 percent at March 31, 2006, and December 31, 2005.

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

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

90 days or more past due **excluding** nonperforming loans	March 31, 2006	December 31, 2005
Commercial		
Commercial	.05%	.06%
Lease financing		
Total commercial	.05	.05
Commercial real estate		
Commercial mortgages		
Construction and development		
Total commercial real estate		
Residential mortgages	.31	.32
Retail		
Credit card	1.45	1.26
Retail leasing	.03	.04
Other retail	.20	.22
Total retail	.36	.36
Total loans	.18%	.18%

90 days or more past due **including** nonperforming loans	March 31, 2006	December 31, 2005

Commercial	.64%	.69%
Commercial real estate	.51	.55
Residential mortgages (a)	.53	.55
Retail	.52	.50
Total loans	.56%	.58%

(a) *Delinquent loan ratios exclude advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the ratio of residential mortgages 90 days or more past due was 3.57 percent at March 31, 2006, and 4.35 percent at December 31, 2005.*

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

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	March 31, 2006	December 31, 2005	March 31, 2006	December 31, 2005
Residential mortgages				
30-89 days	$ 81	$112	.39%	.55%
90 days or more	65	67	.31	.32
Nonperforming	45	48	.22	.23
Total	$191	$227	.92%	1.10%
Retail				
Credit card				
30-89 days	$143	$147	2.05%	2.06%
90 days or more	101	90	1.45	1.26
Nonperforming	51	49	.73	.69
Total	$295	$286	4.23%	4.01%
Retail leasing				
30-89 days	$ 27	$ 43	.37%	.59%
90 days or more	2	3	.03	.04
Nonperforming				
Total	$ 29	$ 46	.40%	.63%
Other retail				
30-89 days	$164	$206	.52%	.66%
90 days or more	63	70	.20	.22
Nonperforming	19	17	.06	.06
Total	$246	$293	.78%	.94%

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 March 31, 2006, total nonperforming assets were $619 million, compared with $644 million at December 31, 2005. The ratio of total nonperforming assets to total loans and other real estate decreased to .45 percent at March 31, 2006, compared with .47 percent at December 31, 2005.

Included in nonperforming loans were restructured loans of $67 million at March 31, 2006, compared with $75 million at December 31, 2005. Commitments to lend additional funds under restructured loans were $1 million at March 31, 2006, compared to $9 million at December 31, 2005.

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Table 6 Nonperforming Assets (a)

(Dollars in Millions)	March 31, 2006	December 31, 2005
Commercial		
Commercial	$219	$231
Lease financing	41	42
Total commercial	260	273
Commercial real estate		
Commercial mortgages	123	134
Construction and development	23	23
Total commercial real estate	146	157
Residential mortgages	45	48
Retail		
Credit card	51	49
Retail leasing		
Other retail	19	17
Total retail	70	66
Total nonperforming loans	521	544
Other real estate (b)	71	71
Other assets	27	29
Total nonperforming assets	$619	$644
Accruing loans 90 days or more past due	$251	$253
Nonperforming loans to total loans	.38%	.39%
Nonperforming assets to total loans plus other real estate (b)	.45%	.47%

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	71	27	98
Advances on loans	10		10
Total additions	81	27	108
Reductions in nonperforming assets			
Paydowns, payoffs	(57)	(20)	(77)

Net sales			
Return to performing status	(20)	(2)	(22)
Charge-offs (c)	(29)	(5)	(34)
Total reductions	(106)	(27)	(133)
Net additions to (reductions in) nonperforming assets	(25)		(25)
Balance March 31, 2006	$432	$187	$619

(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 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 payments 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.

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

(Dollars in Millions)	Amount March 31, 2006	Amount December 31, 2005	As a Percent of Ending Loan Balances March 31, 2006	As a Percent of Ending Loan Balances December 31, 2005
Commercial	$15	$5	.03%	.01%
Commercial real estate	1	1		
Residential mortgages	64	59	.31	.28
Credit card	255	218	3.65	3.05
Other retail	36	32	.09	.08
Total	$371	$315	.27%	.23%

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

Analysis of Loan Net Charge-Offs Total loan net charge-offs were $115 million during the first quarter of 2006, compared with net charge-offs of $172 million, for the first quarter of 2005. The ratio of total loan net charge-offs to average loans in the first quarter of 2006 was .33 percent, compared with .55 percent, for the first quarter of 2005.

Commercial and commercial real estate loan net charge-offs for the first quarter of 2006 were $14 million (.08 percent of average loans outstanding), compared with $33 million (.20 percent of average loans outstanding) in the first quarter of 2005. The year-over-year improvement in net charge-offs was broad-based across most industries within the commercial loan portfolio. The Company anticipates commercial loan recoveries to decline somewhat over the next several quarters causing commercial loan net charge-offs to stabilize or slightly increase.

Retail loan net charge-offs for the first quarter of 2006 were $94 million (.83 percent of average loans outstanding), compared with $130 million (1.22 percent of average loans outstanding) for the first quarter of 2005. The decrease in retail loan net charge-offs reflected lower charge-offs in the first quarter of 2006 due to additional charge-offs in the fourth quarter of 2005 related to new bankruptcy legislation. The Company anticipates that bankruptcy charge-offs will return to more normal levels in future quarters.

The Company s retail lending business utilizes several distinct business processes and channels to originate retail credit including traditional branch lending, indirect lending and a consumer finance division. Each distinct underwriting and origination activity manages unique credit risk characteristics and prices its loan production commensurate with the differing risk profiles. Within Consumer Banking, U.S. Bank Consumer Finance (USBCF) participates in all facets of the Company s consumer lending activities. USBCF specializes in serving channel-specific and alternative lending markets in residential mortgages,

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

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Commercial		
Commercial	.05%	.16%

Lease financing	.56	1.07
Total commercial	.11	.27
Commercial real estate		
Commercial mortgages	.04	.08
Construction and development		.11
Total commercial real estate	.03	.09
Residential mortgages	.14	.23
Retail		
Credit card	2.62	4.11
Retail leasing	.22	.45
Home equity and second mortgages	.33	.46
Other retail	.78	1.09
Total retail	.83	1.22
Total loans	.33%	.55%

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:

Three Months Ended March 31 (Dollars in Millions)	Average Loan Amount		Percent of Average Loans	
	2006	2005	2006	2005
Consumer Finance (a)				
Residential mortgages	$6,814	$5,121	.42%	.55%
Home equity and second mortgages	2,057	2,657	1.38	1.68
Other retail	403	382	5.03	5.31
Traditional Branch				
Residential mortgages	$14,173	$10,706	%	.08%
Home equity and second mortgages	12,878	12,187	.16	.20
Other retail	16,143	14,485	.68	.98
Total Company				
Residential mortgages	$20,987	$15,827	.14%	.23%
Home equity and second mortgages	14,935	14,844	.33	.46
Other retail	16,546	14,867	.78	1.09

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

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

At March 31, 2006, the allowance for credit losses was $2,251 million (1.62 percent of loans), compared with an allowance of $2,251 million (1.63 percent of loans) at December 31, 2005. The ratio of the allowance for credit losses to nonperforming loans was 432 percent at March 31, 2006, compared with 414 percent at December 31, 2005. The ratio of the allowance for credit losses to annualized loan net charge-offs was 483 percent at March 31, 2006, compared with 329 percent at December 31, 2005.

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Table 8 Summary of Allowance for Credit Losses

	Three Months Ended March 31,	
(Dollars in Millions)	2006	2005
Balance at beginning of period	$2,251	$2,269
Charge-offs		
Commercial		
Commercial	28	32
Lease financing	12	23
Total commercial	40	55
Commercial real estate		
Commercial mortgages	3	6
Construction and development		2
Total commercial real estate	3	8
Residential mortgages	8	10
Retail		
Credit card	54	73
Retail leasing	7	11
Home equity and second mortgages	16	21
Other retail	47	53
Total retail	124	158
Total charge-offs	175	231
Recoveries		
Commercial		
Commercial	23	18
Lease financing	5	10
Total commercial	28	28
Commercial real estate		
Commercial mortgages	1	2
Construction and development		
Total commercial real estate	1	2
Residential mortgages	1	1
Retail		
Credit card	8	8
Retail leasing	3	3
Home equity and second mortgages	4	4
Other retail	15	13
Total retail	30	28

Total recoveries	60	59
Net Charge-offs		
Commercial		
Commercial	5	14
Lease financing	7	13
Total commercial	12	27
Commercial real estate		
Commercial mortgages	2	4
Construction and development		2
Total commercial real estate	2	6
Residential mortgages	7	9
Retail		
Credit card	46	65
Retail leasing	4	8
Home equity and second mortgages	12	17
Other retail	32	40
Total retail	94	130
Total net charge-offs	115	172
Provision for credit losses	115	172
Balance at end of period	$2,251	$2,269
Components		
Allowance for loan losses	$2,035	$2,082
Liability for unfunded credit commitments	216	187
Total allowance for credit losses	$2,251	$2,269
Allowance for credit losses as a percentage of		
Period-end loans	1.62%	1.76%
Nonperforming loans	432	404
Nonperforming assets	364	341
Annualized net charge-offs	483	325

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Several factors were taken into consideration in evaluating the allowance for credit losses at March 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, including the airline industry, and the extent of credit exposure to other borrowers within the portfolio. In addition, concentration risks associated with commercial real estate and the mix of loans, including credit cards, loans originated through the consumer finance division and residential mortgages, and their relative credit risk were evaluated. Finally, the Company considered current economic conditions that might impact the portfolio.

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

Operational Risk Management The Company manages operational risk through a risk management framework and its internal control processes. Within this framework, the Corporate Risk Committee (Risk Committee) provides oversight and assesses the most significant operational risks facing the Company within its business lines. Under the guidance of the Risk Committee, enterprise risk management personnel establish policies and interact with business lines to monitor significant 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. Refer to Management s Discussion and Analysis Operational Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on operational risk management.

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

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

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

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Sensitivity of Net Interest Income:

	March 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	.99%	(1.16)%	2.03%	(2.80)%	.66%	(.73)%	1.19%	(2.60)%

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

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

Market Value of Equity Modeling The Company also utilizes the market value of equity as a measurement tool in managing interest rate sensitivity. The market value of equity measures the degree to which the market values of the Company s assets and liabilities and off-balance sheet instruments will change given a change in interest rates. ALPC guidelines limit the change in market value of equity in a 200 basis point parallel rate shock to 15 percent of the market value of equity assuming interest rates at March 31, 2006. The up 200 basis point scenario resulted in a 7.5 percent decrease in the market value of equity at March 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 March 31, 2006, compared with a 4.1 percent decrease at December 31, 2005. At March 31, 2006, and December 31, 2005, the Company was within its policy guidelines.

The Company also uses duration of equity as a measure of interest rate risk. The duration of equity is a measure of the net market value sensitivity of the assets, liabilities and derivative positions of the Company. The duration of assets was 1.8 years at March 31, 2006, compared with 1.6 years at December 31, 2005. The duration of liabilities was 1.7 years at March 31, 2006, compared with 1.6 years at December 31, 2005. At March 31, 2006, the duration of equity was 2.4 years, compared with 1.8 years at December 31, 2005. The increased duration of equity measure shows that sensitivity of the market value of equity of the Company was liability sensitive to changes in interest rates. Refer to Management s Discussion and Analysis Market Value of Equity Modeling in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on market value of equity modeling.

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

By their nature, derivative instruments are subject to market risk. The Company does not utilize derivative instruments for speculative purposes. Of the Company s $28.2 billion of total notional amount of asset and liability management derivative positions at March 31, 2006, $21.1 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 LIBOR loans and floating-rate debt. The fair value hedges are primarily interest rate swaps that hedge the change in fair value related to interest rate changes of underlying fixed-rate debt and subordinated obligations.

In addition, the Company uses forward commitments to sell residential mortgage loans to hedge its interest rate risk related to residential mortgage loans held for sale. Related to its mortgage banking operations, the Company held $1.8 billion of forward commitments to sell mortgage loans and $1.7 billion of unfunded mortgage loan commitments that were derivatives in accordance with the provisions of the Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedge Activities. The unfunded mortgage loan commitments are reported at fair value as options in Table 9. Beginning in March 2006, the Company entered into U.S. Treasury futures and options on U.S. Treasury futures contracts to hedge the change in fair value related to the election of fair value measurement for its residential MSRs.

At March 31, 2006, the Company had $47 million in accumulated other comprehensive income related to

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Table 9 Derivative Positions

(Dollars in Millions)	March 31, 2006 Notional Amount	Fair Value	Weighted-Average Remaining Maturity In Years	December 31, 2005 Notional Amount	Fair Value	Weighted-Average Remaining Maturity In Years
Asset and Liability Management Positions						
Interest rate contracts						
Receive fixed/pay floating swaps	$11,585	$(123)	9.76	$16,370	$(82)	7.79
Pay fixed/receive floating swaps	7,196	116	1.58	9,163	139	1.33
Futures and forwards						
Buy	102		.10	104		.07
Sell	5,331	20	.15	2,669	(15)	.09
Options						
Written	3,586	(11)	.15	1,086	3	.08
Foreign exchange contracts						
Cross-currency swaps	385	5	9.36	387	11	9.61
Forwards	6		.06	404	7	.05
Equity contracts	46		3.04	42	3	3.29
Customer-related Positions						
Interest rate contracts						
Receive fixed/pay floating swaps	$9,966	$(191)	5.25	$9,753	$(69)	5.25
Pay fixed/receive floating swaps	9,940	243	5.25	9,707	121	5.25
Options						
Purchased	1,420	10	2.25	1,453	6	2.26
Written	1,405	(9)	2.33	1,453	(5)	2.26
Risk participation agreements (a)						
Purchased	148		7.72	143		8.02
Written	205		6.25	169		4.64
Foreign exchange rate contracts						
Forwards and swaps						
Buy	2,149	56	.38	2,042	77	.43
Sell	2,091	(46)	.40	2,018	(73)	.46
Options						
Purchased	90	(1)	.35	56	1	.24
Written	90	1	.35	56	(1)	.24

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

realized and unrealized losses on derivatives classified as cash flow hedges. Unrealized gains and losses are reflected in earnings when the related cash flows or hedged transactions occur and offset the related performance of the hedged items. The estimated amount to be reclassified from accumulated other comprehensive income into earnings during the remainder of 2006 and the next 12 months is a gain of $2 million and $1 million, respectively.

Gains or losses on customer-related derivative positions were not material for the first quarter of 2006. The change in fair value of forward commitments attributed to hedge ineffectiveness recorded in noninterest income was a decrease of $1 million for the first quarter of 2006. The change in the fair value of all other asset and liability management derivative positions attributed to hedge ineffectiveness recorded in noninterest income was not material for the first quarter of 2006.

The Company enters into derivatives to protect its net investment in certain foreign operations. The Company uses forward commitments to sell specified amounts of certain foreign currencies to hedge its capital volatility risk associated with fluctuations in foreign currency exchange rates. The net amount of gains or losses included in the cumulative translation adjustment for the first quarter of 2006 was not material.

Market Risk Management In addition to interest rate risk, the Company is exposed to other forms of market risk as a consequence of conducting normal trading activities. Business activities that contribute to market risk include primarily residential mortgage related risks, but also other things, such as proprietary trading and foreign exchange positions. Value at Risk (VaR) is a key measure of market risk for the Company. Theoretically, VaR represents the maximum amount that the Company has placed at risk of loss, with a ninety-ninth percentile degree of confidence, to adverse market movements in the course of its risk taking activities. Due to the election of fair value measurement of its residential MSRs and related hedging strategy in the first quarter of 2006, the Company increased its VaR limit to $40 million at March 31, 2006, compared with $20 million at December 31, 2005. The Company s market valuation risk, as estimated by the VaR analysis, was $17 million at March 31, 2006, compared with $1 million at December 31, 2005. Refer to Management s Discussion and Analysis Market Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, for further discussion on market risk management.

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

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 January 27, 2006, Standard & Poor s Ratings Services upgraded the Company s senior, unsecured subordinated and short-term debt ratings to AA-, A+ and A-1+, respectively, from A+, A and A-1, respectively. At January 27, 2006, the credit ratings outlook for the Company was considered Stable by Moody s Investors Service, Standard & Poor s, Fitch Ratings and Dominion Bond Rating Services.

At March 31, 2006, parent company long-term debt outstanding was $11.4 billion, compared with $10.9 billion at December 31, 2005. The $.5 billion increase was primarily due to the $1.3 billion issuance of junior subordinated debentures, offset by long-term debt maturities and repayments during the first three months of 2006. As of March 31, 2006, there is no parent company debt scheduled to mature in the remainder of 2006.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. The amount of dividends available to the parent company from its banking subsidiaries after meeting the regulatory capital requirements for well-capitalized banks was approximately $1.2 billion at March 31, 2006.

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

In the ordinary course of business, the Company enters into an array of commitments to extend credit, letters of credit and various forms of guarantees that may be considered off-balance sheet arrangements. The extent of these arrangements is provided in Note 12 of the Notes to Consolidated Financial Statements.

Asset securitizations and conduits represent a source of funding for the Company through off-balance sheet structures. The Company sponsors an off-balance sheet conduit to which it transferred high-grade investment securities, funded by the issuance of commercial paper. The conduit held assets and related commercial paper liabilities of $3.5 billion at March 31, 2006, and $3.8 billion at December 31, 2005. The Company provides a liquidity facility to the conduit. A liability for the estimate of the potential risk of loss the Company has as the liquidity facility provider is recorded on the balance sheet in other liabilities and was $17 million at March 31, 2006, and $20 million at December 31, 2005. In addition, the Company recorded at fair value its retained residual interest in the investment securities conduit of $22 million at March 31, 2006, and $28 million at December 31, 2005.

The Company does not rely significantly on off-balance sheet arrangements for liquidity or capital resources. Refer to Management s Discussion and Analysis Off-Balance Sheet Arrangements in the Company s Annual Report on

Form 10-K for the year

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Table 10 Capital Ratios

(Dollars in Millions)	March 31, 2006	December 31, 2005
Tier 1 capital	$16,478	$15,145
As a percent of risk-weighted assets	8.9%	8.2%
As a percent of adjusted quarterly average assets (leverage ratio)	8.2%	7.6%
Total risk-based capital	$24,328	$23,056
As a percent of risk-weighted assets	13.1%	12.5%
Tangible common equity	$10,955	$11,873
As a percent of tangible assets	5.4%	5.9%

ended December 31, 2005, for further discussion on off-balance sheet arrangements.

Capital Management The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. The Company has targeted returning 80 percent of earnings to its common shareholders through a combination of dividends and share repurchases. In the first quarter of 2006, the Company returned 158 percent of earnings. The Company continually assesses its business risks and capital position. The Company also manages its capital to exceed regulatory capital requirements for well-capitalized bank holding companies. To achieve these capital goals, the Company employs a variety of capital management tools including dividends, common share repurchases, and the issuance of subordinated debt and other capital instruments. Total shareholders equity was $20.3 billion at March 31, 2006, compared with $20.1 billion at December 31, 2005. The increase was the result of corporate earnings and the issuance of $1.0 billion of non-cumulative, perpetual preferred stock on March 27, 2006, partially offset by share repurchases and dividends.

Table 10 provides a summary of capital ratios as of March 31, 2006, and December 31, 2005. Tier 1 capital at March 31, 2006, was positively affected by the $1.0 billion issuance of preferred stock and the $1.3 billion issuance of junior subordinated debentures during the first quarter of 2006. All regulatory ratios continue to be in excess of regulatory well-capitalized requirements.

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

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

Time Period	Number of Shares Purchased	Average Price Paid Per Share	Remaining Shares Available to be Purchased
January	9,914,275	$29.61	73,570,945
February	17,755,778	30.12	55,815,167
March	13,278,203	30.95	42,536,964
Total	40,948,256	$30.27	42,536,964

LINE OF BUSINESS FINANCIAL REVIEW

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

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

Designations, assignments and allocations change from time to time as management systems are enhanced, methods of evaluating performance or product lines change or business segments are realigned to better respond to our diverse customer base. During 2006, certain organization and methodology changes were

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made and, accordingly, 2005 results were restated and presented on a comparable basis, including a change in the allocation of risk adjusted capital to the business lines. Business lines are allocated risk adjusted capital based upon economic capital requirements, regulatory capital requirements, goodwill and intangibles. The allocations to the business lines are equal to the capital that is held by the Company. The capital allocations include credit and operational capital allocations which are performed using a Basel II approach with adjustments for regulatory Tier I leverage requirements.

Wholesale Banking offers lending, depository, treasury management and other financial services to middle market, large corporate and public sector clients. Wholesale Banking contributed $279 million of the Company s net income in the first quarter of 2006, or an increase of $26 million, compared with the first quarter of 2005. The increase was primarily driven by growth in total net revenue and a reduction in the provision for credit losses.

Total net revenue increased $24 million (4.0 percent) in the first quarter of 2006, compared with the first quarter of 2005. Net interest income, on a taxable-equivalent basis, increased $23 million (5.9 percent) in the first quarter of 2006, compared with the first quarter of 2005. The increase in net interest income was driven by growth in average loan balances and wider spreads on total deposits due to the funding benefit associated with the impact of rising interest rates, partially offset by reduced loan spreads due to competitive pricing. The increase in average loans was driven by stronger commercial loan demand in 2005 and the first three months of 2006. Total deposits increased year-over-year driven by growth in fixed-rate time deposits, partially offset by a decrease in interest checking deposits.

Noninterest expense was flat in the first quarter of 2006, compared with the first quarter of 2005, as increases in personnel expenses and net shared services were offset by a reduction in other loan expense.

The provision for credit losses decreased $17 million in the first quarter of 2006, compared with the first quarter of 2005. The favorable change in the provision for credit losses was due to improving credit quality resulting in net recoveries of $14 million in the first quarter of 2006, compared with net charge-offs of $3 million in the first quarter of 2005. Nonperforming assets within Wholesale Banking were $234 million at March 31, 2006, $242 million at December 31, 2005, and $330 million at March 31, 2005. Nonperforming assets as a percentage of period-end loans were .51 percent at March 31, 2006, .54 percent at December 31, 2005, and .76 percent at March 31, 2005. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

Consumer Banking delivers products and services through banking offices, telephone servicing and sales, on-line services, direct mail and ATMs. It encompasses community banking, metropolitan banking, in-store banking, small business banking, including lending guaranteed by the Small Business Administration, small-ticket leasing, consumer lending, mortgage banking, consumer finance, workplace banking, student banking, 24-hour banking and investment product and insurance sales. Consumer Banking contributed $448 million of the Company s net income in the first quarter of 2006, an increase of $34 million, compared with the first quarter of 2005. While the retail banking business grew net income 9.8 percent in the first quarter of 2006, the contribution of the mortgage banking business decreased 15.4 percent, compared with the first quarter of 2005.

Total net revenue increased $15 million (1.0 percent) in the first quarter of 2006, compared with the first quarter of 2005. Net interest income, on a taxable-equivalent basis, increased $41 million in the first quarter of 2006, compared with the first quarter of 2005. The year-over-year increase in net interest income was due to strong growth in average loans and the funding benefit of total deposits due to rising interest rates. Partially offsetting these increases were reduced spreads on commercial and retail loans due to competitive pricing. The increase in average loan balances reflected growth in retail loans, residential mortgages, commercial loans and commercial real estate loans. The growth in retail loans was principally driven by an increase in installment loans which increased 15.2 percent in the first quarter of 2006 over the first quarter of 2005. Residential mortgages, which include traditional residential mortgages, grew 33.1 percent in the first quarter of 2006, compared with the same period of a year ago, reflecting the Company s decision to retain adjustable-rate residential mortgages during 2005. The year-over-year decrease in average deposits was primarily due to reduction in saving products, offset by growth in interest checking and time deposits. The year-over-year increase in interest checking balances reflects strong branch-based new account deposit growth. On a combined basis, the Consumer Banking line of business generated growth of $617 million (2.1 percent) in average checking account balances in the first quarter of 2006, compared with the first quarter of 2005, driven by 5.9 percent growth in net new checking accounts. Offsetting this growth was a decline in average savings balances of $3.1 billion (12.2 percent) from first quarter of 2005, principally related to money market accounts. Average time deposit

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Table 11 Line of Business Financial Performance

Three Months Ended March 31 (Dollars in Millions)	Wholesale Banking 2006	Wholesale Banking 2005	Wholesale Banking Percent Change	Consumer Banking 2006	Consumer Banking 2005	Consumer Banking Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis)	$415	$392	5.9%	$1,012	$971	4.2%
Noninterest income	209	212	(1.4)	442	468	(5.6)
Securities losses, net		(4)	*			
Total net revenue	624	600	4.0	1,454	1,439	1.0
Noninterest expense	195	195		667	645	3.4
Other intangibles	4	4		13	63	(79.4)
Total noninterest expense	199	199		680	708	(4.0)
Income before provision and income taxes	425	401	6.0	774	731	5.9
Provision for credit losses	(14)	3	*	69	80	(13.8)
Income before income taxes	439	398	10.3	705	651	8.3
Income taxes and taxable-equivalent adjustment	160	145	10.3	257	237	8.4
Net income	$279	$253	10.3	$448	$414	8.2
Average Balance Sheet Data						
Commercial	$29,568	$27,844	6.2%	$9,065	$8,213	10.4%
Commercial real estate	16,016	15,435	3.8	11,870	11,336	4.7
Residential mortgages	63	62	1.6	20,476	15,389	33.1
Retail	43	46	(6.5)	35,038	33,142	5.7
Total loans	45,690	43,387	5.3	76,449	68,080	12.3
Goodwill	1,225	1,225		2,243	2,243	
Other intangible assets	59	76	(22.4)	1,329	1,116	19.1
Assets	51,709	49,309	4.9	84,575	75,776	11.6
Noninterest-bearing deposits	11,983	11,937	.4	12,885	12,915	(.2)
Interest checking	3,106	3,602	(13.8)	17,666	17,019	3.8
Savings products	5,276	5,223	1.0	22,382	25,501	(12.2)
Time deposits	12,002	11,046	8.7	18,217	16,482	10.5
Total deposits	32,367	31,808	1.8	71,150	71,917	(1.1)
Shareholders equity	4,922	4,815	2.2	6,819	6,827	(.1)

* *not meaningful*

balances grew $1.7 billion in the first quarter of 2006, compared with the first quarter of 2005, as a portion of money market balances migrated to fixed-rate time deposit products.

Fee-based noninterest income decreased $26 million in the first quarter of 2006, compared with the first quarter of 2005. The year-over-year decline in fee-based revenue was driven by a reduction in mortgage banking revenue, partially offset by increases in deposit service charges, retail leasing revenue, and other revenue. The increase in other revenue reflected higher gains from the sales of student loans. The reduction in mortgage banking revenue reflected the adoption of fair value accounting for mortgage servicing rights as of January 1, 2006, and lower mortgage loan production due to rising interest rates.

Noninterest expense decreased $28 million (4.0 percent) in the first quarter of 2006, compared with the first quarter of 2005. The decrease was primarily attributable to the elimination of MSR amortization under SFAS 156 which resulted in a reduction of other intangible expense. Partially offsetting this decrease were increases in compensation and employee benefit expenses, and net shared services. The increases in compensation and employee benefit expenses reflect the impact of the net addition of 40 in-store and 13 traditional branches at March 31, 2006, compared with March 31, 2005.

The provision for credit losses decreased $11 million in the first quarter of 2006, compared with the first quarter of 2005. The improvement was attributable to lower net charge-offs. As a percentage of average loans outstanding, net charge-offs declined to .37 percent in the first quarter of 2006, compared with .48 percent in the first quarter of 2005. The decline in net charge-offs includes both the commercial and retail loan portfolios. Commercial and commercial real estate loan net charge-offs declined $3 million in the first quarter of 2006, compared with the first quarter of 2005. Retail loan and residential mortgage net charge-offs declined by $8 million in the first quarter of 2006, compared with the first quarter of 2005. Nonperforming assets within Consumer Banking were $317 million at March 31, 2006, $341 million at December 31, 2005, and $326 million at March 31, 2005. Nonperforming assets as a percentage of period-end loans were .44 percent at March 31, 2006, .47 percent at December 31, 2005, and .50 percent at March 31, 2005. Refer to the Corporate Risk Profile section for further information on factors impacting the credit quality of the loan portfolios.

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Private Client, Trust and Asset Management			Payment Services			Treasury and Corporate Support			Consolidated Company		
2006	2005	Percent Change	2006	2005	Percent Change	2006	2005	Percent Change	2006	2005	Percent Change
$124	$99	25.3%	$162	$146	11.0%	$12	$143	(91.6)%	$1,725	$1,751	(1.5)%
307	253	21.3	590	486	21.4	66	22	*	1,614	1,441	12.0
							(55)	*		(59)	*
431	352	22.4	752	632	19.0	78	110	(29.1)	3,339	3,133	6.6
199	165	20.6	291	237	22.8	63	18	*	1,415	1,260	12.3
22	15	46.7	46	41	12.2		(52)	*	85	71	19.7
221	180	22.8	337	278	21.2	63	(34)	*	1,500	1,331	12.7
210	172	22.1	415	354	17.2	15	144	(89.6)	1,839	1,802	2.1
			60	89	(32.6)				115	172	(33.1)
210	172	22.1	355	265	34.0	15	144	(89.6)	1,724	1,630	5.8
76	63	20.6	129	96	34.4	(51)	18	*	571	559	2.1
$134	$109	22.9	$226	$169	33.7	$66	$126	(47.6)	$1,153	$1,071	7.7
$1,503	$1,585	(5.2)%	$3,639	$3,210	13.4%	$150	$145	3.4%	$43,925	$40,997	7.1%
665	636	4.6				65	97	(33.0)	28,616	27,504	4.0
443	366	21.0				5	10	(50.0)	20,987	15,827	32.6
2,403	2,276	5.6	8,321	7,813	6.5	46	49	(6.1)	45,851	43,326	5.8
5,014	4,863	3.1	11,960	11,023	8.5	266	301	(11.6)	139,379	127,654	9.2
1,343	843	59.3	2,286	1,942	17.7		(1)	*	7,097	6,252	13.5
495	331	49.5	1,056	907	16.4		12	*	2,939	2,442	20.4
7,459	6,650	12.2	16,598	14,499	14.5	49,684	50,701	(2.0)	210,025	196,935	6.6
3,527	3,369	4.7	293	141	*	149	55	*	28,837	28,417	1.5
2,368	2,516	(5.9)				1	9	(88.9)	23,141	23,146	
5,368	5,479	(2.0)	18	14	28.6	23	15	53.3	33,067	36,232	(8.7)
2,070	967	*	3		*	2,826	3,133	(9.8)	35,118	31,628	11.0
13,333	12,331	8.1	314	155	*	2,999	3,212	(6.6)	120,163	119,423	.6
2,309	1,639	40.9	4,358	3,864	12.8	1,740	2,658	(34.5)	20,148	19,803	1.7

Private Client, Trust and Asset Management provides trust, custody, private banking, financial advisory, investment management and mutual fund servicing through five businesses: Private Client Group, Corporate Trust, FAF Advisors, Institutional Trust and Custody and Fund Services. Private Client, Trust and Asset Management contributed $134 million of the Company s net income in the first quarter of 2006, or an increase of $25 million, compared with the first quarter of 2005. The growth was primarily attributable to higher total net revenue, partially offset by an increase in noninterest expense.

Total net revenue increased $79 million (22.4 percent) in the first quarter of 2006, compared with the first quarter of 2005. Net interest income, on a taxable-equivalent basis, increased $25 million in the first quarter of 2006, compared with the first quarter of 2005. The increase in net interest income was due to growth in total average deposits and the favorable impact of rising interest rates on the funding benefit of customer deposits, partially offset by a decline in loan spreads. The increase in total deposits was attributable to growth in noninterest-bearing deposits and time deposits principally in Corporate Trust. Noninterest income increased $54 million in the first quarter of 2006, compared with the first quarter of 2005, primarily driven by the acquisition of the corporate and institutional trust business of Wachovia Corporation, growth in core revenue, and favorable equity market valuations.