



PROMISE & PERIL
Managing the Uncertainty of Rapid Innovation and a Changing Economy

2017 Annual Risk Conference

“A View From the Corner Office”

March 30, 2017

Richard K. Davis
Chairman and CEO

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Old Fashioned, Simple Banking



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Advice to Bankers of 1863

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ADVICE TO BANKERS of 1863

In December 1863, Hugh McCulloch, the first Comptroller of the Currency, addressed a letter to all national banks. These institutions had only barely been organized, and McCulloch wanted to make certain that their executives fully understood the responsibilities and expectations that came with their national charters. Here are some of his paragraphs:

“It is no longer to be made that are not secured beyond a reasonable contingency. Give facilities only to legitimate and prudent transactions. Make your discounts on all other than as the business of your customers as well general, and limit upon the payment of all paper at maturity, or should whether you need the money or not. Never make a loan or discount because you may not have where to place the money with equal advantage if the paper is paid. In no other way can the project, except your discount, be made it as of some value.”

“Therefore you must have when that customer there is a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently costly. Large business are given to control the bank and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus is more lost, and its managers are therefore under the strongest obligations to its creditors, as well as to its stockholders, to keep its discounts constantly under its control.”

“Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently costly. Large business are given to control the bank; and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to its stockholders, to keep its discounts constantly under its control.”

“There are neighborhood, upright, legitimate banking business. None so managed by the proper of large centers to the anything but what may be properly done under the National Currency Act. ‘Spurious banking’ is not legitimate banking, and ‘spurious banking’ is banking not generally, either bankings or banks.”

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ADVICE TO BANKERS of 1863

“Let no loans be made that are not secured beyond a reasonable contingency. Give facilities only to legitimate and prudent transactions. Make your discounts on all other than as the business of your customers as well general, and limit upon the payment of all paper at maturity, no matter whether you need the money or not. Never renew a note or bill merely because you may not know where to place the money, with equal advantage if the paper is paid. In no other way can you properly control your discount line, or make it at all times reliable.”

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ADVICE TO BANKERS of 1863

“Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently costly. Large business are given to control the bank; and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to its stockholders, to keep its discounts constantly under its control.”

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Game Day

- Anticipation
- Optimism
- Uncertainty



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Now it's Game Time How To Win?

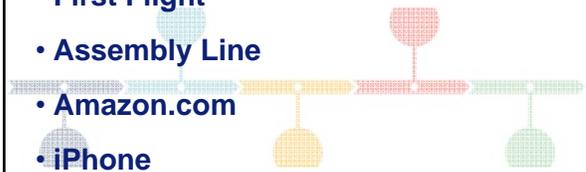
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Moment of Significant Consequence

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Moments in History

- First Flight
- Assembly Line
- Amazon.com
- iPhone
- Trump Presidency



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Business Economy

Optimism High, But Mixed

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Optimistic but Mixed

- Healthcare Reform
- Infrastructure Spending
- Tax Relief
- Trade Agreements
- Financial Regulation



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Banking Industry

Optimistic High, But Cautious

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Optimistic but Cautious

- Rates
- Yield Curve
- Regulation
- Economy

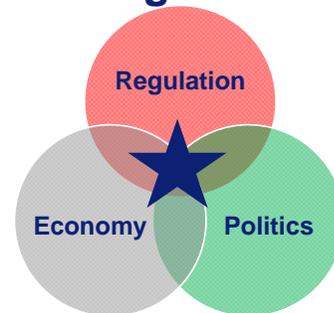


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Our Starting Point...

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Our Starting Point



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Leading From Here



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The U.S. economy remains almost comatose. The current slump already ranks as the longest period of sustained weakness since the Great Depression ... will take years to work out.

Among the dislocations: the job drought, the debt hangover, the [banking] collapse, the real estate depression, the health-care cost explosion, and the runaway federal deficit.

*— TIME magazine's description of the
dismal state of the U.S. economy*

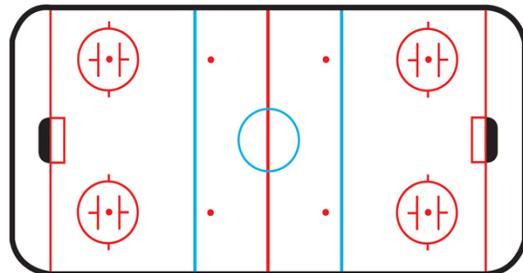
September, 1992

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Positioning to Win!

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Positioning to Win



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Strong Game Conditions

- Wages (finally) rising
- Unemployment low
- Manufacturing and Non-manufacturing showing acceleration
- Corporate Tax Reform
- Infrastructure Spending
- Regulatory Easing

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What Worries the Fans

- Trade Policy
- Inflation
- Strong Dollar
- Banking Regulation



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Game Changer

- Artificial Intelligence
- Automation / Robotics versus Jobs
- Service Models



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Being Where the Puck

... is *going to be!*



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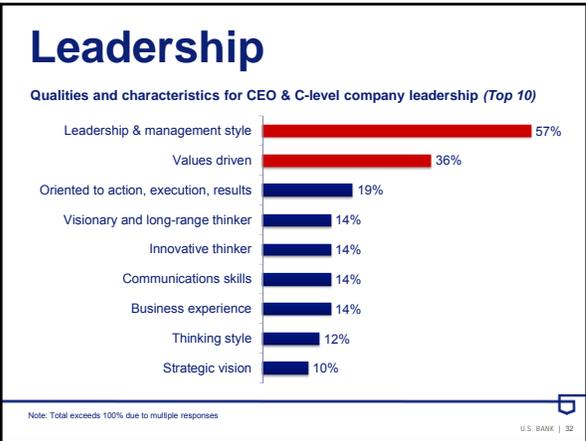
Our Role as Leaders

Inside Our Companies

Outside Our Companies

Inside Our Bank

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Leadership Traits

Life Long Learners

VISIONARIES

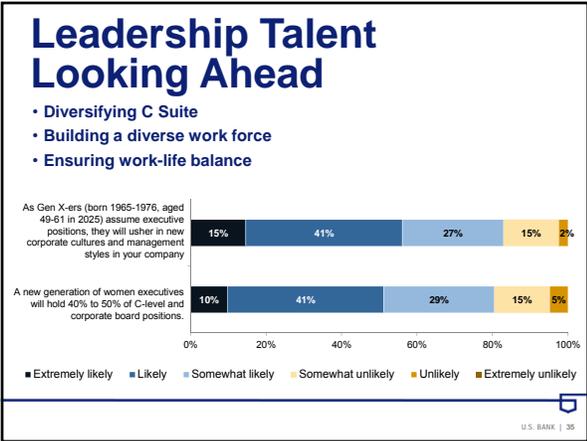
Empathy

Great Communicators

Strategic

INTEGRITY

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Our Role as Leaders

Inside Our Companies

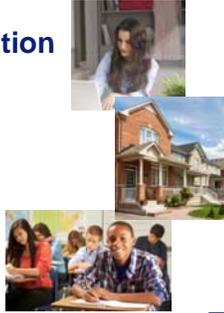
Outside Our Companies

Inside Our Bank

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Representing Our Industry

- Setting Aside Competition to Drive Change
- Invest Politically
- Reputation Protection & Development



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Advocating for Civic Initiatives

- The Itasca Project
- New Version of the “Club Table”
- Civic is Greater than the “City”



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Giving Back to our Communities

- Growing Jobs and Communities
- Advocating for Volunteerism and Engagement
- Financial Support for Philanthropies



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Our Role as Leaders

- Inside Our Companies
- Outside Our Companies
- Inside Our Bank**

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Employee Engagement

-  • Future Vision
-  • Careers vs. Jobs
-  • Purpose

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OUR PURPOSE, OUR VALUES

We invest our **hearts** and minds to power human **potential**.

- We do the right thing.
- We power potential.
- We stay a step ahead.
- We draw strength from diversity.
- We put people first.

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Video

THE TWO MOST IMPORTANT DAYS IN YOUR LIFE
ARE THE DAY YOU ARE BORN
AND THE DAY YOU FIND OUT WHY
- Mark Twain



Customer Expectations

- Changing Behaviors
- Safety / Soundness
- Cascading Wealth
- Increasing Interest Rates

Customer Preferences

- **Federal Reserve Board of Governors 2016 survey:**
 - 87% of adults have a mobile phone
 - 77% of mobile phones are smartphones with internet capabilities
 - 53% of smartphone owners used one or more mobile banking offerings in 2015
 - 28% of smartphone users used mobile payment functions to:
 - Pay Bills
 - Make Internet Purchases
 - Complete In-store Purchases

Customer Preferences

Evolution

- **Product Innovation and Delivery Channels Across Business Lines**
- **Invested heavily in marketing, strategy, and data analytics to better understand how customers respond best to new offerings**
- **“Big Data” use is driving many innovations in product development and marketing strategies.**
- **Industry innovation has also increased competition from FinTech firms that are non-banks:**

Risk Perspectives

- Changing Demands
- FinTech
- New Skill Sets
- Cyber Security

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Risk Perspectives

- Banks' risk profiles impacted by product innovation and business line delivery channel evolution
- Increasing customer demands:
 - Next new product
 - Speed to market
 - Immediate access to funds and in money movement
 - Targeted product development and marketing
 - Knowing habits and anticipating wants
- FinTech firms introducing new and nimble competitors



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Risk Perspectives

- FinTech firm competition has made banks better
- New skill sets and disciplines for banking practices:
 - Model Risks
 - Number of models rising dramatically
 - Model complexity is also increasing as models are required to "learn" customer behavior
 - Models are also used in risk management practices
- Increased dependence on models creates increased level of scrutiny
- Cyber Security risk spans across all risk management disciplines.

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Board Education

- Credible Challenge
- Education and Training
- Strategic Planning
- Succession



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Board Education

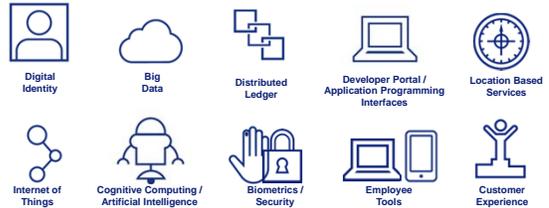
FinTech – A World of Opportunity

- Not a threat, but a complement to the industry
- Helping to drive change in consumer behavior
- Consortiums in place to address industry needs (Zelle)
- Banks have the customers, deposits, security, and regulation
- Looking for opportunities to partner or buy, rather than build

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Board Education

Areas of Opportunity



Cybersecurity

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Regulator Partnership

- Credible Challenge
- Safety and Soundness
- Strategic Guidance
- Shared Responsibility



It's Game Day!

Old Fashioned, Simple Banking



ADVICE TO BANKERS of 1863

In December 1863, Hugh McCulloch, the first Comptroller of the Currency, addressed a letter to all national banks. These institutions had only barely been organized, and McCulloch wanted to make certain that their executives fully understood the responsibilities and expectations that came with their national charters. Here are some of his paragraphs:

Let us begin by reminding you that you are not merely financial accountants. Do not think of banking as a light and easy profession. It is a business, and you must be prepared to meet the responsibilities of your position as well as those of the business of your country. It is a business, and you must be prepared to meet the responsibilities of your position as well as those of the business of your country. It is a business, and you must be prepared to meet the responsibilities of your position as well as those of the business of your country.

New Fashioned, Simple Banking



ADVICE TO FINANCIAL SERVICES LEADERS - 2017

- Stay true to our roots
- Be the lifeblood of society
- Work for the betterment of all
- Work together as a full industry
- Balance constituents
- Reflect the correct virtues
- Rebuild our legacy