

# U.S. Bancorp Investor Day Risk Management

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# Key Risk Management Strategies

**A strong risk culture is embedded in our corporate strategy and will continue to be foundational to our long-term success.**

## **Our focus:**

- Ensuring sustainability of programs
- Staying ahead of emerging risks
- Simplifying processes
- Remaining agile
- Leveraging data and analytics

## **Aligned with our risk appetite:**

- Undertaking risk prudently
- Avoiding undue concentrations of risk
- Avoiding activities that may damage our reputation
- Avoiding unnecessary complexity
- Maintaining sufficient capital and liquidity



# Ensuring Sustainability of Risk and Compliance Programs

We invest in people, processes and technology to mature our risk programs.

## Keys to success

- Experienced **staff** and sufficient **resources**
- **Consistent tone** and messaging throughout every layer of the organization
- Speak up **culture** and **rapid escalation** of issues
- Continued **investment** in automation and new technologies
- **Collaboration** with participants across the industry



# Key and Emerging Risks

Our programs continually evolve to address the current environment.

## Key risks

- Cybersecurity
- Real-time payments
- Model management
- Third party
- Credit
- Reputation

## Emerging risks

- Competitive environment
- Digital interactions
- Emerging technologies
- Customer privacy
- Market and interest rate volatility

## Regulatory and geopolitical risks

- Capital tailoring
- LIBOR replacement
- Tariffs

### We manage these risks through:

- Increased investment in technology, process improvements and validation
- Maintenance of existing, disciplined risk processes with early and ongoing engagement of risk specialists

# Key Risk: Cybersecurity

Cyber adversaries are becoming more sophisticated all the time, but we are evolving.

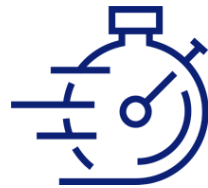
We continue to invest in and enhance our Cybersecurity program:

- **Executive Cyber Dashboard** monitors current threats, defense effectiveness and status of our overall Cyber program
- **3<sup>rd</sup> Party Independent Assessments** enable us to identify and implement program enhancements in a rapidly changing environment
- **Scenario Planning** involves continually exercising scenarios and applying lessons learned from others and updating playbooks
- **Board Subcommittee** adds focus to Cybersecurity risks facing the industry



# Key Risk: Real-time Payments

The changing risk landscape is creating new challenges.



## Fraud Detection

Invested in Fraud Behavior Analytics platform and other front-end fraud detection systems

## Real-time Transaction Processing

Foundational change moving from batch processing environment to real-time transaction processing

## Operational Resiliency

Ensured our operational resiliency processes are designed to meet changing 24-Hour Banking expectations



# Optimization of Processes

We are adapting quickly in today's changing environment in ways that add value.

**Supporting business growth**  
*Ensuring adherence to all existing risk programs*

- Integrated into every Agile Studio
- Early engagement, collaboration and transparency

**Innovating**  
*Simplifying and optimizing*

- "Risk Studio" focused on improving, streamlining and enhancing risk programs
- Process simplification for employees and customers



# Leveraging Data and Analytics

Data and analytics enhance our ability to manage risk while driving simplification.

U.S. Bank is applying advanced analytics in a variety of areas:

## Account originations

New tools and data (e.g., device reputation, bot detection, Synthetic ID Scores and Rapid Default Models) have resulted in **over \$5 million** in loss avoidance

## Transaction monitoring

Advanced analytics to monitor for unauthorized transactions and account abuse have resulted in **over \$10 million** in loss avoidance

## Anti-money laundering

Machine learning to detect suspicious behavior and structuring activity has **doubled the accuracy** of traditional methods (11.3% vs 22.8%)

## Quality assurance testing

Data automation has increased sample testing populations for select consumer regulations from 20% to **100%** with less staff







# Credit Risk Management

# Credit Risk Management is a Core Competency

A strong credit culture is key to our long-term, consistent performance.



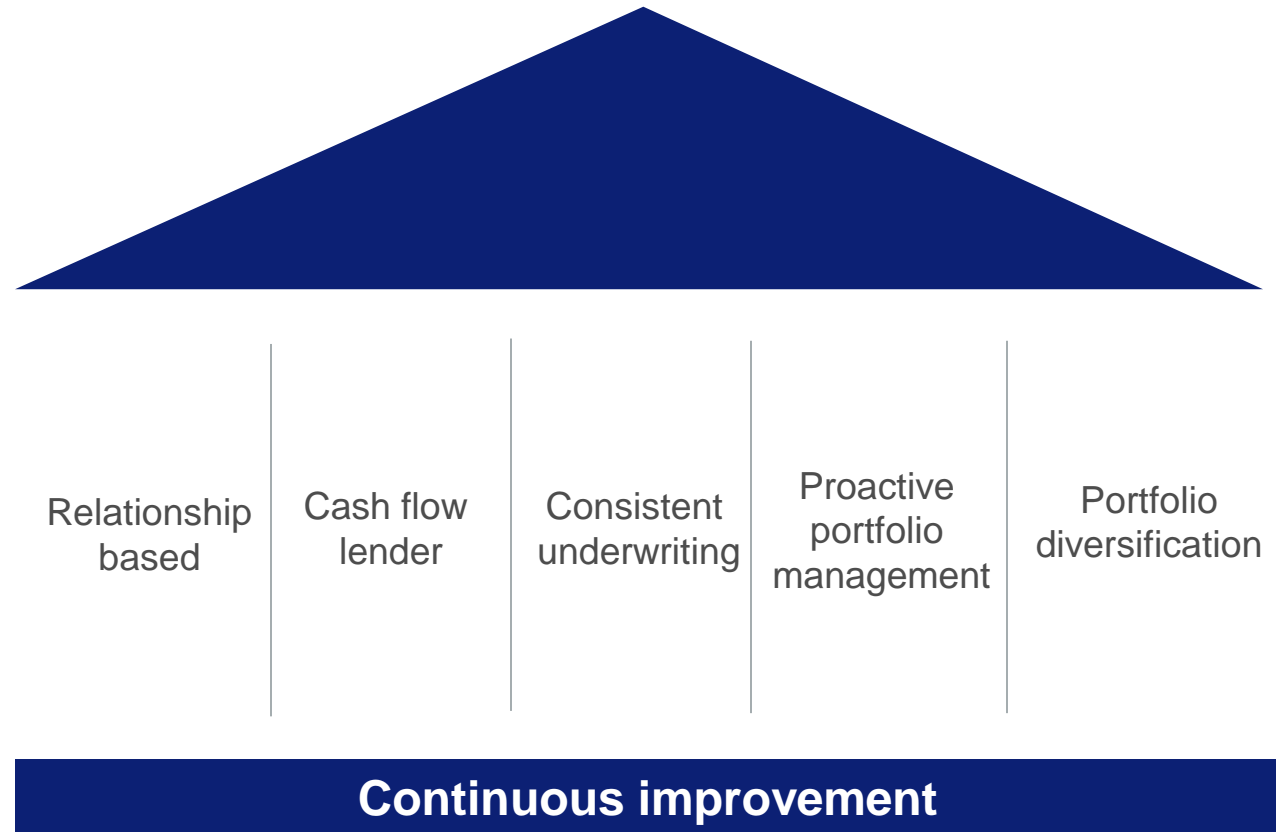
**Supports and enables prudent long-term growth**



**Enhances our position as the most trusted choice**

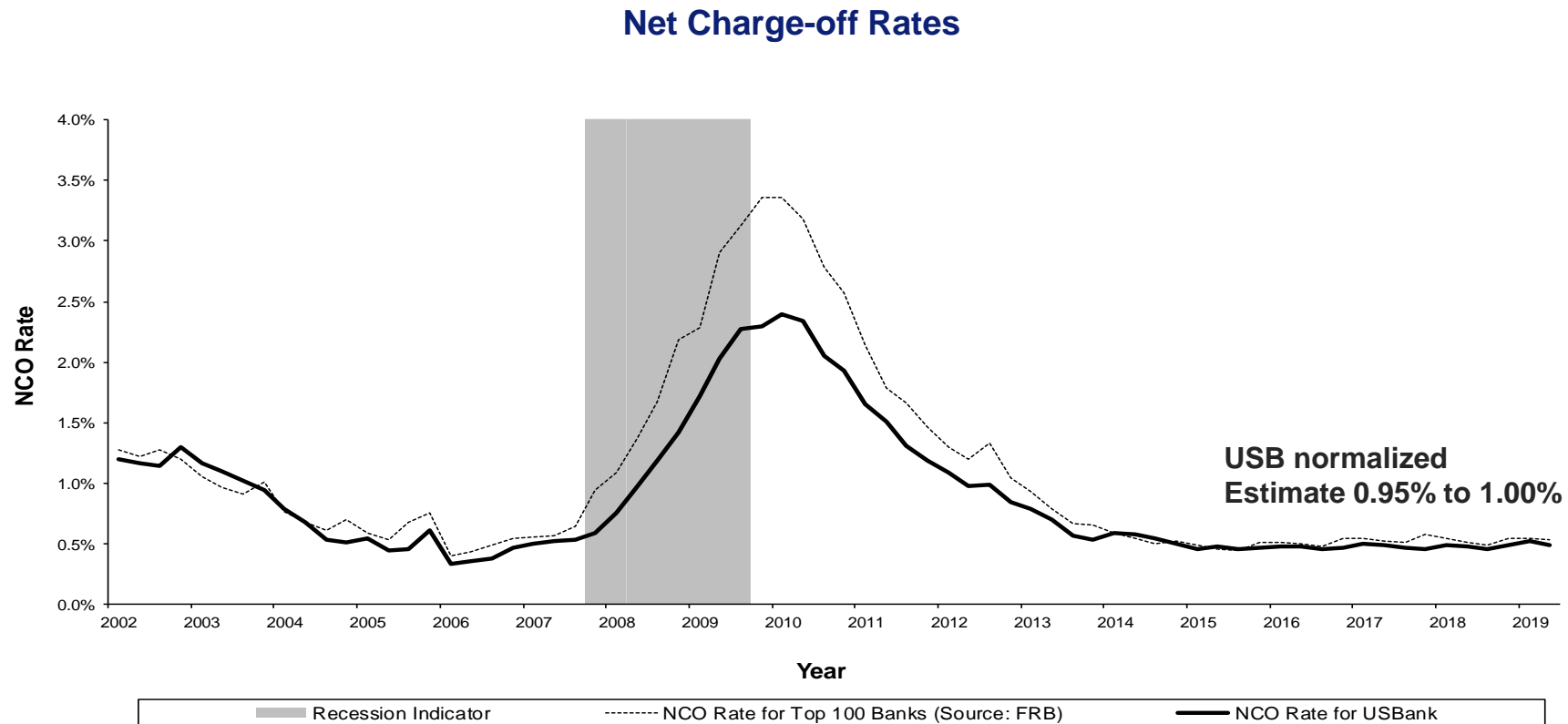


**Produces consistent results**



# Lower Volatility

During periods of stress, our results are less volatile than the industry due to our disciplined credit culture.



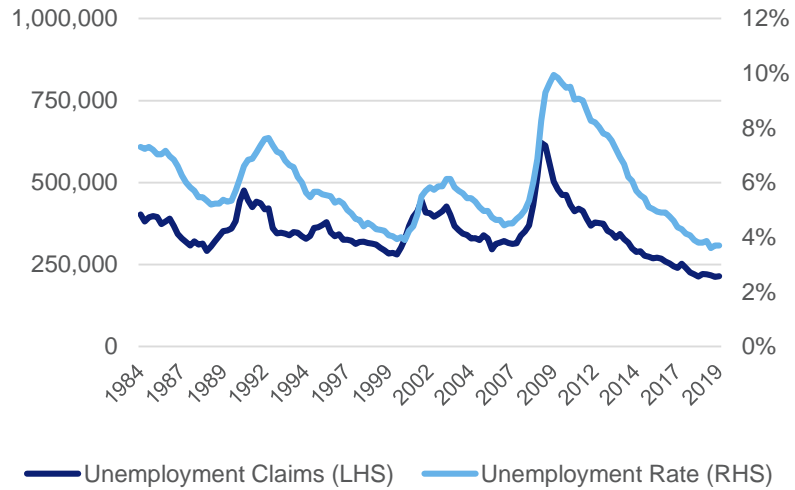
# Credit Risk Management Begins With Consistent Underwriting

Portfolio	2Q19 Wtd Avg FICO/Bond rating equivalent	2Q19 Avg LTV
Residential mortgage	763	73%
Home equity	782	68%
Auto loan	782	99%
Auto lease	781	94%
Credit card	775	N/A
Commercial	Baa3/BBB-	N/A
Commercial real estate	Ba1/BB+	61%

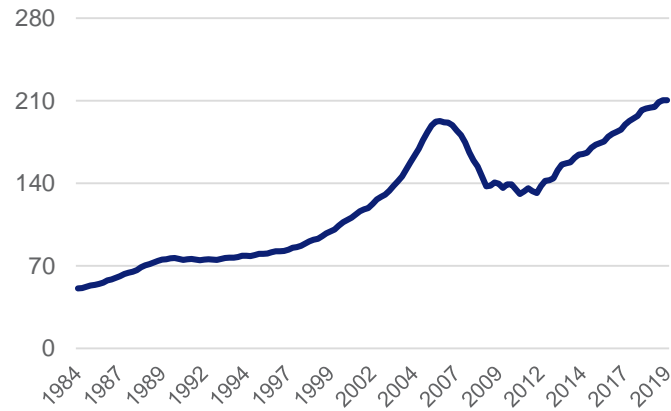
- Prime-based lender for retail portfolios
- Principally investment grade equivalent in commercial portfolios
- Commercial Real Estate is relationship-based with consistent underwriting

# Early Warning Indicators Enable Proactive Portfolio Management

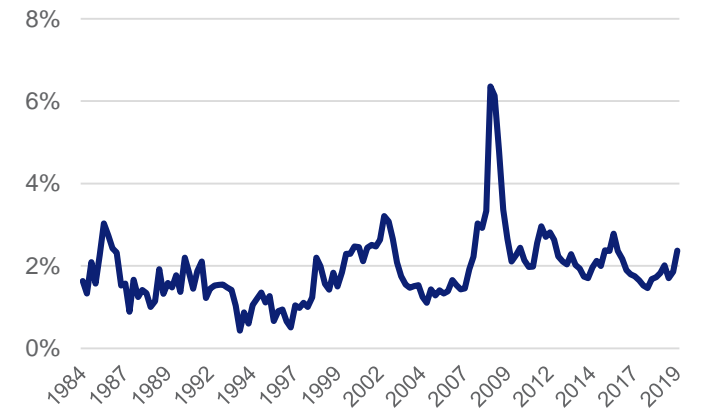
## Unemployment claims/rate <sup>(1)</sup>



## Housing Price Index <sup>(2)</sup>



## BBB bond spread <sup>(3)</sup>



# Risk Management Supports Consistency Through the Cycle

Through the cycle remains  
at 95-100 bps

Through the Cycle  
Expected Loss Rates

Loan Portfolio	Normalized NCO%
Commercial	0.40%
Commercial Real Estate	0.65%
Small Business	2.35%
Residential Mortgages	0.35%
Credit Cards	4.65%
Other Retail	0.90%
Total	0.95%

# In Summary: Prudent Risk Management is a Core Competency

**Strong risk management supports best-in-class growth and returns through the cycle.**



**Proven track record**



**Strong governance and culture**



**Agile risk mindset**



**Proactively addressing emerging risks**



**Focus on through-the-cycle performance**

