



COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

Key Metrics

USB - NYSE (as of 10/18/17)	\$53.27
Price Target	\$55.00
52-Week Range	\$42.85-\$56.61
Shares Outstanding (mm)	1,667.0
Market Cap. (\$mm)	\$88,801
3-Mo. Average Daily Volume (000)	5,355.2
Institutional Ownership	71.0%
Tangible Equity / Tangible Assets	8.8%
ROE	12.4%
Tangible Book Value Per Share	\$20.00
Price/Tangible Book Value	266.4%
Dividend Yield	2.3%
Price/LTM Earnings	15.8x

Operating EPS CY 12/31

	Curr. 2016E	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.76A	\$0.81A	\$0.81A	\$0.92	\$0.92
2Q	\$0.76A	\$0.84A	\$0.84A	\$0.98	\$0.98
3Q	\$0.83A	\$0.89	\$0.88A	\$1.05	\$1.05
4Q	\$0.81	\$0.88	\$0.87	\$1.04	\$1.05
Year	\$3.17	\$3.42	\$3.41	\$3.99	\$4.00
P/E	16.8x		15.6x		13.3x

Numbers may not add due to rounding

Common Dividends

	2016E	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.26	\$0.28A	9.8	\$0.30
2Q	\$0.26	\$0.28A	9.8	\$0.30
3Q	\$0.28	\$0.30A	7.1	\$0.32
4Q	\$0.28	\$0.30	7.1	\$0.32
Year	\$1.07	\$1.16	8.4	\$1.23

Company Description – U.S. Bancorp is the fifth largest commercial banking organization in the U.S. in terms of total assets and market capitalization. In addition to traditional retail and commercial banking services, the company offers a wide array of other products and services including retail and institutional credit cards, payment processing, wealth management, trust, securities brokerage and mortgage banking.

Banks

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U.S. Bancorp

USB – NYSE – Neutral – 1

3Q17 Earnings Review; Reiterating Neutral Rating

- **Earnings Results:** USB reported 3Q17 EPS of \$0.88 which was \$0.01 below our estimate and in line with the Street consensus.
- **Positive Highlights:** Net interest income increased 3.9% linked-quarter (LQ) to \$3.14 billion driven by six bps of net interest margin (NIM) expansion to 3.10%, a 1.2% rise in average earning assets and an extra day in the quarter. We had projected net interest income of \$3.13 billion and a 3.09% margin.

Loans were up 0.5% LQ on an end-of-period basis, while average loans advanced 0.8%.

The provision for credit losses inched up \$10 million LQ to \$360 million, while the net charge-off ratio fell two bps to 0.47%. We had projected a provision of \$364 million and net charge-offs of 50 bps.

Noninterest expense rose 0.5% sequentially to \$3.04 billion. Results were essentially in line with our estimate of \$3.05 billion.

- **Negative Highlights:** Operating noninterest income was essentially flat LQ at \$2.42 billion and was below our estimate of \$2.48 billion.
- **Estimates:** We are modestly revising our 2017 and 2018 operating EPS estimates to \$3.41 and \$4.00 from \$3.42 and \$3.99, respectively. We are increasing our price target by \$1.00 to \$55.00 and maintaining our Neutral rating.

Note Important Disclosures on pages 5 and 6
Note Analyst Certification on page 5

OTHER TAKEAWAYS & VALUATION

- The Q3 NIM benefitted from higher than expected interest recoveries, which contributed approximately two bps.
- Average commercial loans rose 1.0% on a LQ basis, while retail loans grew 2.6% and total commercial real estate loans shrank 2.2%. Management noted the loan growth was constrained by refinancing activities stemming from the reduction in long-term rates during much of the quarter and customers awaiting clarity regarding tax reform.
- The Q3 provision included reserves for potential credit losses in market affected by Hurricanes Harvey and Irma. Management does not anticipate any impact to the provision regarding these hurricanes in future quarters.
- The company noted that certain noninterest income line items were negatively impacted by disruptions caused by hurricanes and other natural catastrophic events.
- The above-average expense growth rate related to the Bank Secrecy Act/anti-money laundering compliance program has peaked and will begin to normalize towards the company's overall expense growth rate.
- The company's total payout ratio, including dividends and share buybacks was 79% in 3Q17.
- Management provided the following guidance for 4Q17:
 - Total average loan growth on a LQ basis at a similar pace to Q3 growth rate
 - Flat fee revenue vs. Q3
 - Flat NIM vs. Q3
 - Noninterest expense growth of 3%-5% YOY
 - An effective tax rate of approximately 29%
- Our price target is derived through our discounted dividend model and the application of a forward multiple of 12.5X to our 4Q18-3Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

SUITABILITY

Our suitability rating on USB is 1 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Regulatory** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders. Moreover, the company is one of the largest commercial banking organizations in the nation and, accordingly, is subject to greater regulatory scrutiny compared to smaller financial institutions.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.

- **Competition** – The industry is highly competitive and many of the company’s competitors have greater resources.
- **Sector Rotation** – The share price of the company’s common stock may be vulnerable to any sector rotation that might occur.
- **Other** – Please see the company’s financial statements for a further discussion of risks and considerations.

	U.S. BANCORP										USB: NEUTRAL				
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 A	3Q17 A	4Q17 E	2015 A	2016 A	2017 E	2018 E	2016 A	2017 E	2018 E
Millions, Except for Per Share Data															
Balance Sheet Data:															
Average Assets	428,638	438,463	454,134	445,964	449,522	463,844	459,227	463,130	414,677	441,800	458,931	476,786	414,677	441,800	458,931
Average Loans	262,281	266,592	269,637	272,671	273,158	275,528	279,986	279,986	250,435	267,793	276,574	288,241	250,435	267,793	276,574
Average Loans FFI	263,545	267,601	270,443	272,403	272,835	276,609	277,626	282,346	259,817	272,403	282,346	286,964	259,817	272,403	282,346
End-of-Period Loans FFI	378,208	385,368	393,783	401,971	399,281	403,883	408,825	412,300	367,406	389,833	406,072	424,457	367,406	389,833	406,072
Average Earning Assets	295,192	301,632	312,987	323,866	328,808	329,803	333,162	336,575	284,722	308,414	332,087	345,857	284,722	308,414	332,087
Average Deposits	41,237	41,683	42,290	42,134	42,217	42,854	43,103	43,425	39,973	41,836	42,900	44,400	39,973	41,836	42,900
Average Common Equity	2,888	2,896	2,943	3,004	2,995	3,068	3,194	3,217	11,214	11,731	12,475	13,356	11,214	11,731	12,475
FTE Net Interest Income	2,835	2,845	2,893	2,955	2,945	3,017	3,135	3,158	11,001	11,528	12,255	13,108	11,001	11,528	12,255
Net Interest Income	330	327	325	342	345	350	360	370	1,132	1,324	1,425	1,634	1,132	1,324	1,425
Provision for Loan Losses															
Non-Interest Income:															
Credit and Debit Card Revenue	266	296	289	316	292	319	308	338	1,070	1,177	1,257	1,361	1,070	1,177	1,257
Corporate Payment Products Revenue	170	181	190	171	179	184	201	178	708	712	742	772	708	712	742
Merchant Processing Services	373	403	412	404	378	407	405	412	1,547	1,592	1,602	1,683	1,547	1,592	1,602
ATM Processing Services	80	84	87	87	85	90	92	92	318	338	359	367	318	338	359
Trust and Investment Management Fees	339	358	362	368	368	380	387	387	1,321	1,427	1,515	1,615	1,321	1,427	1,515
Deposit Service Charges	168	179	192	186	177	184	192	193	702	725	746	772	702	725	746
Treasury Management Fees	142	147	147	147	153	160	153	156	561	583	622	636	561	583	622
Commercial Products Revenue	197	238	219	217	207	210	221	222	867	871	860	888	867	871	860
Mortgage Banking Revenue	187	238	314	240	207	212	213	188	906	979	820	788	906	979	820
Investment Products Fees	40	39	41	38	40	41	39	40	185	158	160	168	185	158	160
Other Income	184	386	172	251	214	223	209	225	907	993	871	919	907	993	871
Securities Gains	3	3	10	0	29	9	9	0	0	16	47	0	0	16	47
Total Non-Interest Income	2,149	2,552	2,445	2,425	2,329	2,419	2,422	2,430	9,092	9,571	9,600	9,967	9,092	9,571	9,600
Non-Core Adjustment	-3	-183	-10	0	-29	-9	-9	0	(135)	(196)	(47)	0	(135)	(196)	(47)
Adjusted Non-Interest Income	2,146	2,369	2,435	2,425	2,300	2,410	2,413	2,430	8,957	9,375	9,553	9,967	8,957	9,375	9,553
Non-Interest Expense:															
Compensation	1,249	1,277	1,329	1,357	1,391	1,416	1,440	1,436	4,812	5,212	5,683	5,962	4,812	5,212	5,683
Employee Benefits	300	278	280	261	314	287	281	271	1,167	1,119	1,153	1,219	1,167	1,119	1,153
Net Occupancy and Equipment	248	243	250	247	247	255	258	255	991	988	1,015	1,030	991	988	1,015
Professional Services	98	121	127	156	96	103	104	129	423	432	434	432	423	432	434
Marketing and Business Development	77	149	102	107	90	109	92	115	361	435	406	435	361	435	406
Technology and Communications	233	241	243	238	235	242	246	247	887	955	970	1,001	887	955	970
Postage, Printing and Supplies	79	77	80	75	81	81	82	82	297	311	326	334	297	311	326
Other Intangibles	45	44	45	44	44	43	44	44	174	178	175	168	174	178	175
Other Expense	420	562	475	518	446	485	492	525	1,819	1,975	1,948	1,994	1,819	1,975	1,948
Total Non-Interest Expense	2,749	2,992	2,931	3,003	2,944	3,023	3,039	3,104	10,931	11,675	12,110	12,576	10,931	11,675	12,110
Non-Core Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted Non-Interest Expense	2,749	2,992	2,931	3,003	2,944	3,023	3,039	3,104	10,931	11,675	12,110	12,576	10,931	11,675	12,110
Operating Pretax Income	1,902	1,895	2,072	2,035	1,956	2,054	2,149	2,114	7,895	7,904	8,273	8,864	7,895	7,904	8,273
Operating Common Net Income	1,327	1,316	1,428	1,386	1,378	1,423	1,479	1,458	5,503	5,457	5,739	6,554	5,503	5,457	5,739
Share & Per Share Data:															
Diluted EPS	0.76	0.83	0.84	0.82	0.82	0.85	0.88	0.87	3.17	3.24	3.42	4.00	3.17	3.24	3.42
Operating EPS	0.76	0.76	0.83	0.81	0.81	0.84	0.88	0.87	3.11	3.17	3.41	4.00	3.11	3.17	3.41
Dividends Per Share	0.26	0.26	0.28	0.28	0.28	0.30	0.30	0.30	1.01	1.07	1.16	1.23	1.01	1.07	1.16
Tangible Book Value	17.94	18.46	18.86	18.71	19.13	19.60	20.00	20.25	17.44	18.71	20.25	22.09	17.44	18.71	20.25
Common Shares Outstanding	1,732,006	1,718,750	1,704,829	1,696,912	1,685,912	1,685,912	1,673,912	1,660,412	1,745,191	1,696,912	1,660,412	1,610,375	1,745,191	1,696,912	1,660,412
Average Diluted Shares	1,743,000	1,731,000	1,716,000	1,705,000	1,701,000	1,690,000	1,678,000	1,672,662	1,772,000	1,723,750	1,685,416	1,641,254	1,772,000	1,723,750	1,685,416
Key Financial Statistics:															
Return on Assets	1.33%	1.43%	1.38%	1.34%	1.35%	1.36%	1.39%	1.34%	1.45%	1.37%	1.36%	1.47%	1.45%	1.37%	1.36%
Return on Equity	12.89%	13.77%	13.56%	13.21%	13.14%	13.40%	13.69%	13.32%	14.03%	13.36%	13.39%	14.75%	14.03%	13.36%	13.39%
Net Interest Margin	3.06%	3.02%	2.98%	2.98%	3.03%	3.04%	3.10%	3.10%	3.05%	3.01%	3.07%	3.15%	3.05%	3.01%	3.07%
Operating Non-Int. Inc./Operating Rev.	43.08%	45.44%	45.70%	45.07%	43.85%	44.41%	43.49%	43.49%	44.88%	44.85%	43.81%	43.20%	44.88%	44.85%	43.81%
Efficiency Ratio	54.60%	54.90%	54.50%	55.30%	55.60%	54.40%	53.50%	54.18%	53.60%	54.82%	54.42%	53.22%	53.60%	54.82%	54.42%
Tangible Common Ratio	7.42%	7.41%	7.28%	7.28%	7.36%	7.25%	7.42%	7.42%	7.39%	7.28%	7.42%	7.46%	7.39%	7.28%	7.42%
Reserves/Loans	1.46%	1.42%	1.40%	1.40%	1.39%	1.41%	1.39%	1.41%	1.49%	1.40%	1.39%	1.35%	1.49%	1.40%	1.39%
NCOs/Average Loans	0.48%	0.48%	0.47%	0.47%	0.49%	0.49%	0.48%	0.50%	0.47%	0.47%	0.49%	0.54%	0.47%	0.47%	0.49%
YOY Change-BPS															
	(8)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(8)	(1)	(1)	(1)	(8)	(1)	(1)
	(67)	3	3	3	3	3	3	3	(67)	3	3	3	(67)	3	3
	(4)	6	8	8	8	8	8	8	(4)	6	6	8	(4)	6	8
	(3)	(104)	(61)	(61)	(61)	(61)	(61)	(61)	(3)	(104)	(61)	(61)	(3)	(104)	(61)
	123	14	14	14	14	14	14	14	123	14	14	14	123	14	14
	(11)	14	5	5	5	5	5	5	(11)	14	14	5	(11)	14	14
	(9)	(1)	2	2	2	2	2	2	(9)	(1)	2	2	(9)	(1)	2
	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

U.S. Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

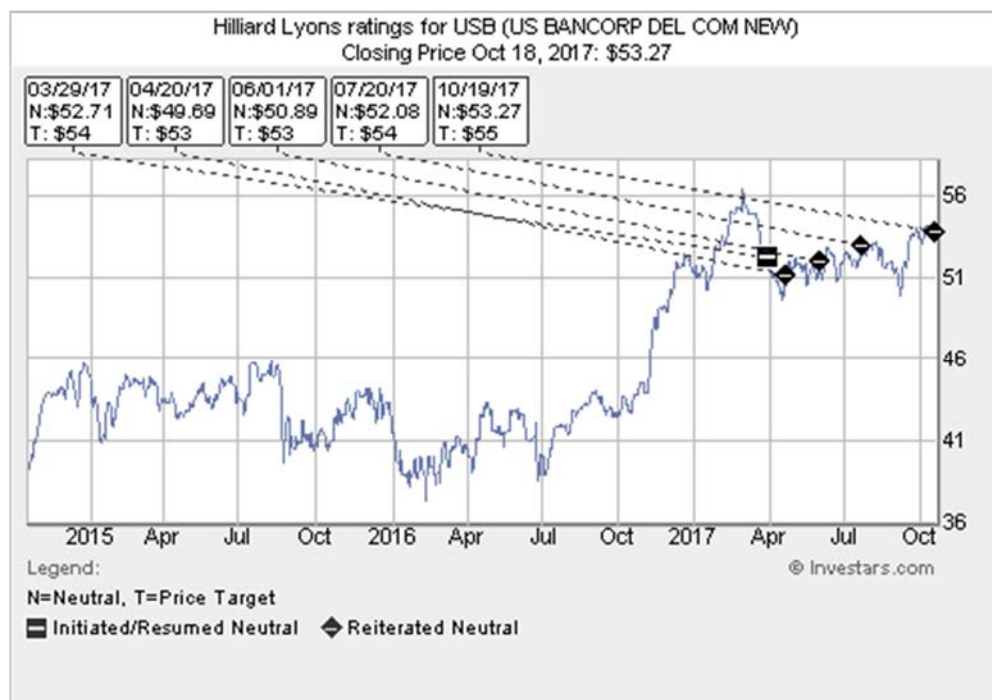
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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