



# Cost Transparency

## Cost Modeling Approaches

**Randall Pfeifer**

VP – Technology Business Management

*November 6<sup>th</sup>, 2013*

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# Introduction

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- Randall Pfeifer – VP, Technology Business Management
- 24 years IT management experience, 16 years with U.S. Bank in a variety of Infrastructure & Operations management roles
  
- TBM Analysts
  - David Knight – Infrastructure and Operations
  - Mark Anderson – Enterprise Architecture & IT engineering
  - Jill Ferguson – Finance & Accounting
  
- Contact information
  - David Knight, [david.knight@usbank.com](mailto:david.knight@usbank.com), 612-973-7015
  - Mark Anderson, [mark.anderson6@usbank.com](mailto:mark.anderson6@usbank.com), 612-973-6209
  - Jill Ferguson, [jillian.ferguson@usbank.com](mailto:jillian.ferguson@usbank.com), 612-973-6250
  - Randall Pfeifer, [randall.pfeifer@usbank.com](mailto:randall.pfeifer@usbank.com), 612-973-7111

# Topics

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- U.S. Bank Overview
- Cost Modeling Overview
  - TBM Methodology
  - U.S. Bank Approach
- Q&A

U.S. Bank Public

EST. 1863 | **usbank**®

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**usbancorp**®



# February 26, 1863



## Lincoln signs the National Bank Act



U.S. Bank Public

# July 13, 1863

## The First National Bank of Cincinnati is formed under Charter #24

**First  
National  
Bank**  
CINCINNATI



U.S. Bank Public

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Treasury Department,

Office of Comptroller of the Currency,

Washington, July 13<sup>th</sup> 1863.

Whereas, by satisfactory evidence presented to the undersigned, it has been made to appear that the First National Bank of Cincinnati in the County of Hamilton and State of Ohio has been duly organized under, and according to the requirements of the act of Congress, entitled "An act to provide a national currency, secured by a pledge of United States stocks, and to provide for the circulation and redemption thereof, approved February 25, 1863, and has complied with all the provisions of said act required to be complied with before commencing the business of Banking:

Now, therefore, Hugh McCulloch Comptroller of the Currency, do hereby certify that the said First National Bank of Cincinnati County of Hamilton and State of Ohio is authorized to commence the business of Banking under the act aforesaid.

In Testimony Whereof, witness my hand and seal of office, this Thirteenth day of July 1863.

Signed, Hugh McCulloch  
Comptroller of the Currency.

No 24

# The world when we began



# U.S. Bancorp Businesses and Map

## Regional

Consumer & Business Banking & Wealth Management

## National

Wholesale Banking & Trust Services

## International

Payments





# U.S. Bancorp Dimensions

## 2Q13 Dimensions

▪ Asset Size	\$353 billion
▪ Deposits	\$252 billion
▪ Loans	\$228 billion
▪ Customers	17.6 million
▪ NYSE Traded	USB
▪ Market Capitalization*	\$66 billion
▪ Founded	1863
▪ Bank Branches	3,087
▪ ATMs	5,032



\* As of August 30, 2013

U.S. Bank Public

# Industry Position

## Assets

U.S. Rank	Company	\$ Billions
1	J.P. Morgan	\$2,439
2	Bank of America	2,123
3	Citigroup	1,884
4	Wells Fargo	1,441
<b>5</b>	<b>U.S. Bancorp</b>	<b>353</b>
6	PNC	304
7	Capital One	297
8	BB&T	183
9	SunTrust	172
10	Fifth Third	123

## Deposits

U.S. Rank	Company	\$ Billions
1	J.P. Morgan	\$1,203
2	Bank of America	1,081
3	Wells Fargo	1,022
4	Citigroup	938
<b>5</b>	<b>U.S. Bancorp</b>	<b>252</b>
6	PNC	212
7	Capital One	210
8	BB&T	131
9	SunTrust	128
10	Fifth Third	93

## Market Value

U.S. Rank	Company	\$ Billions
1	Wells Fargo	\$218
2	J.P. Morgan	190
3	Bank of America	152
4	Citigroup	147
<b>5</b>	<b>U.S. Bancorp</b>	<b>66</b>
6	PNC	38
7	Capital One	38
8	BB&T	24
9	SunTrust	17
10	Fifth Third	16



# Performance Metrics

1Q13

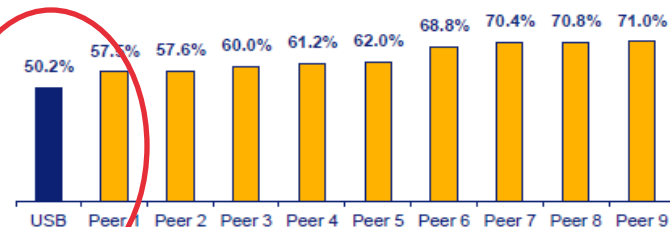
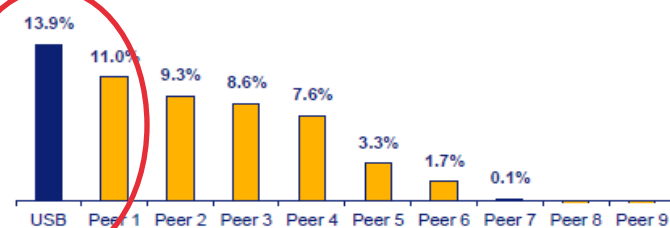
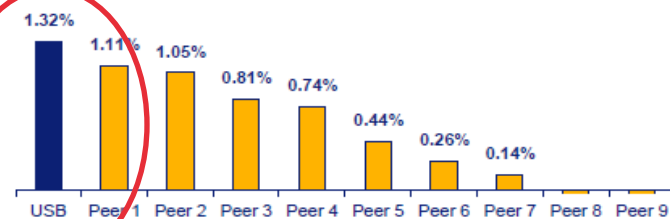
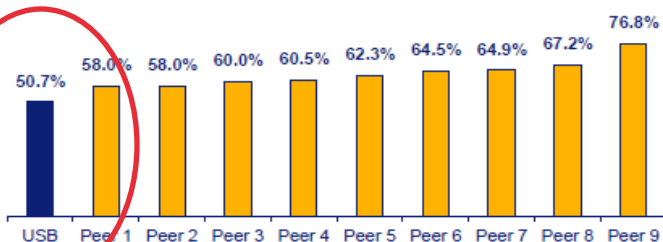
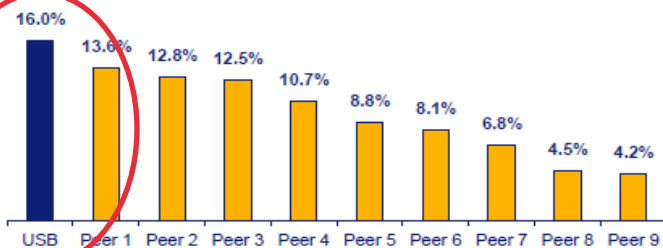
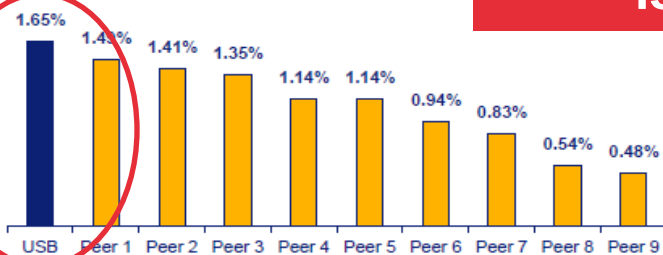
Gaining TBM momentum is a challenge

Since 1Q08

Return on Average Assets

Return on Average Common Equity

Efficiency Ratio



Source: SNL and company reports

Peer banks: BAC, BBT, FITB, JPM, KEY, PNC, RF, STI and WFC



U.S. Bank Public

# Cost Modeling Overview

## Technology Business Management

- Vision
- Data – “Sources of Truth”
- Cost Allocation Taxonomy
- Cost Allocation Approaches

## U.S. Bank

- Vision
- Data – “Sources of Truth”
- Cost Allocation Model
- Cost Allocation Taxonomy
- Modeling Approaches
- Mainframe Allocation Example
- Closing Thoughts

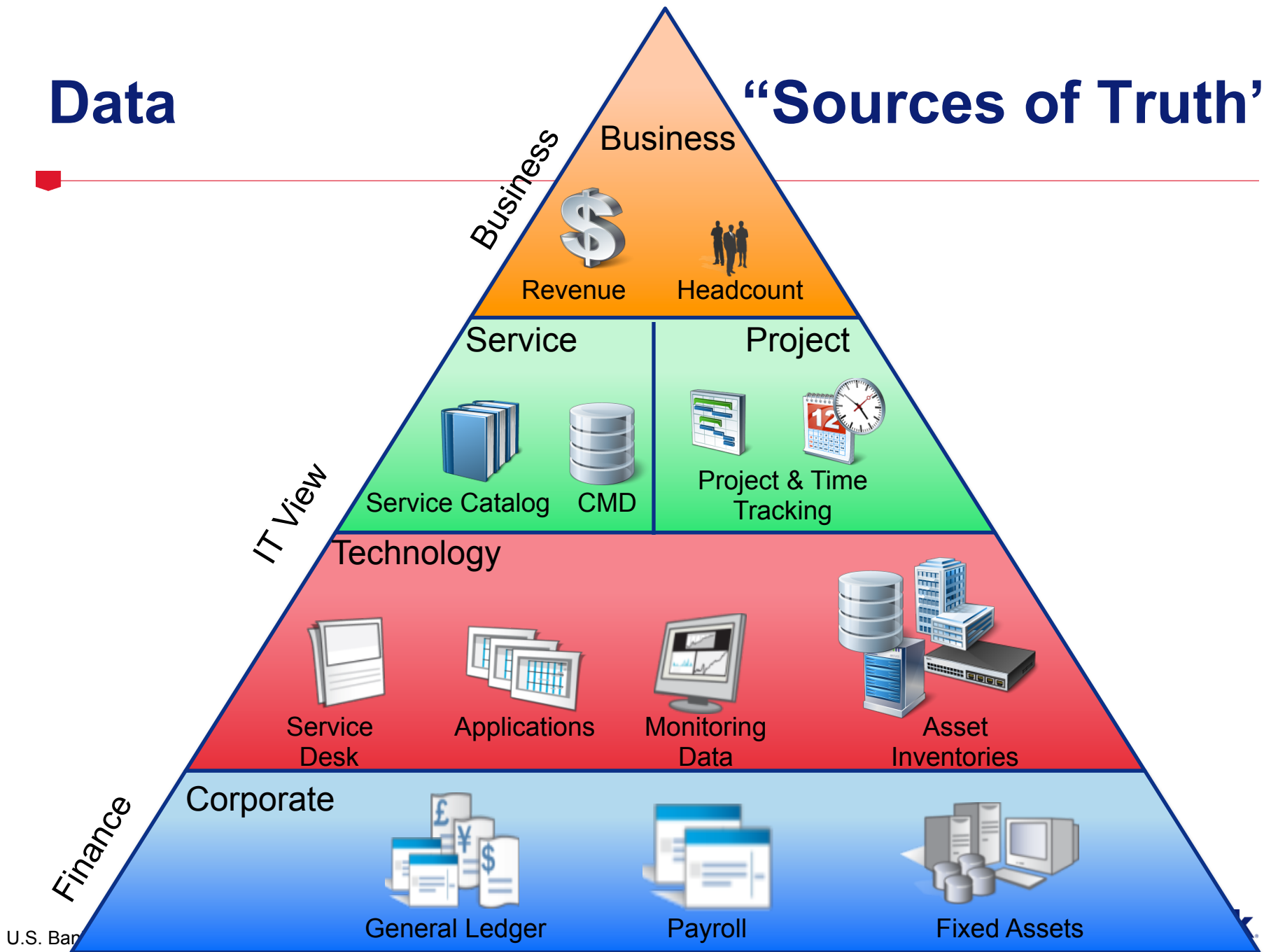


# Vision

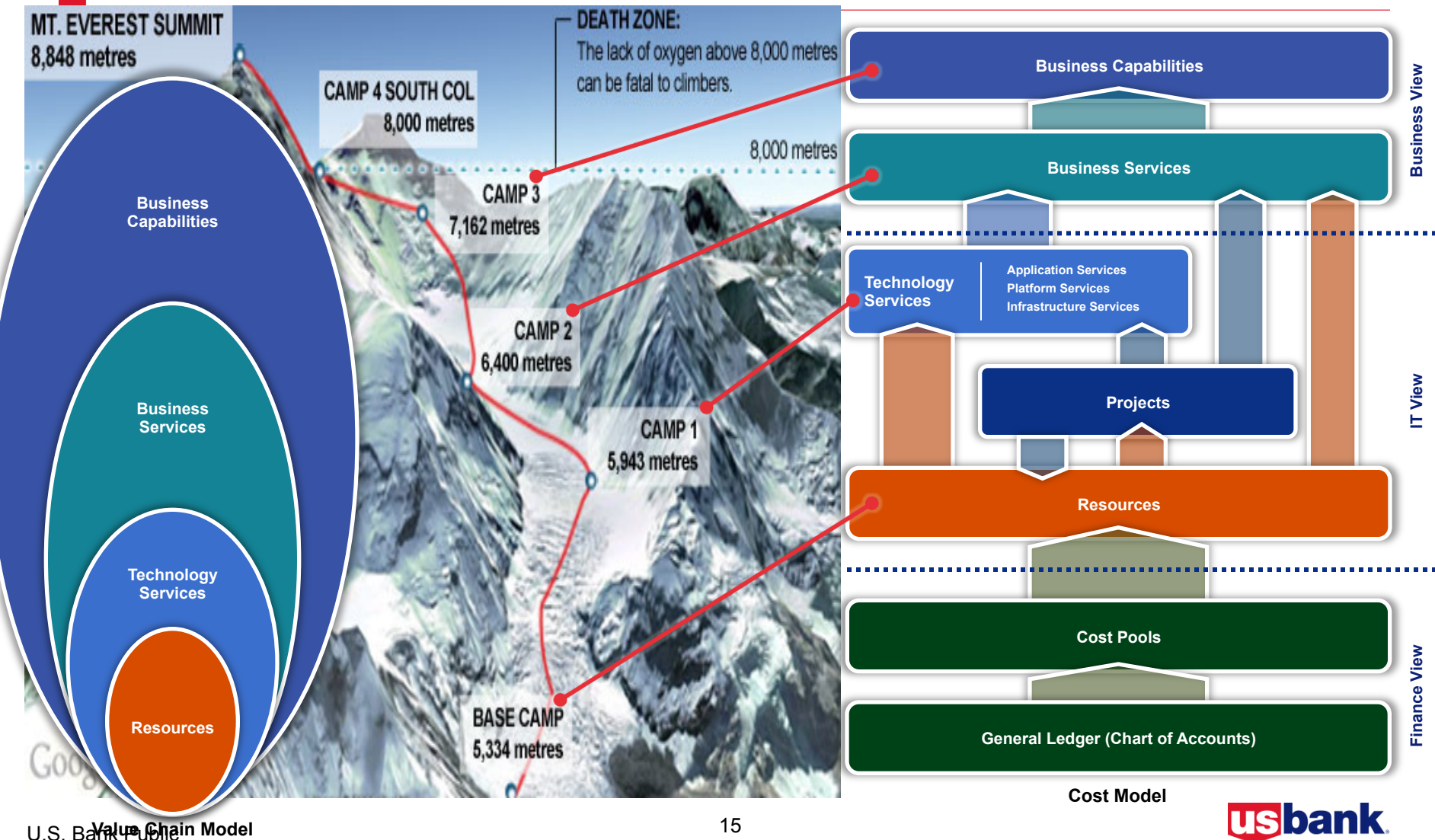


# Data

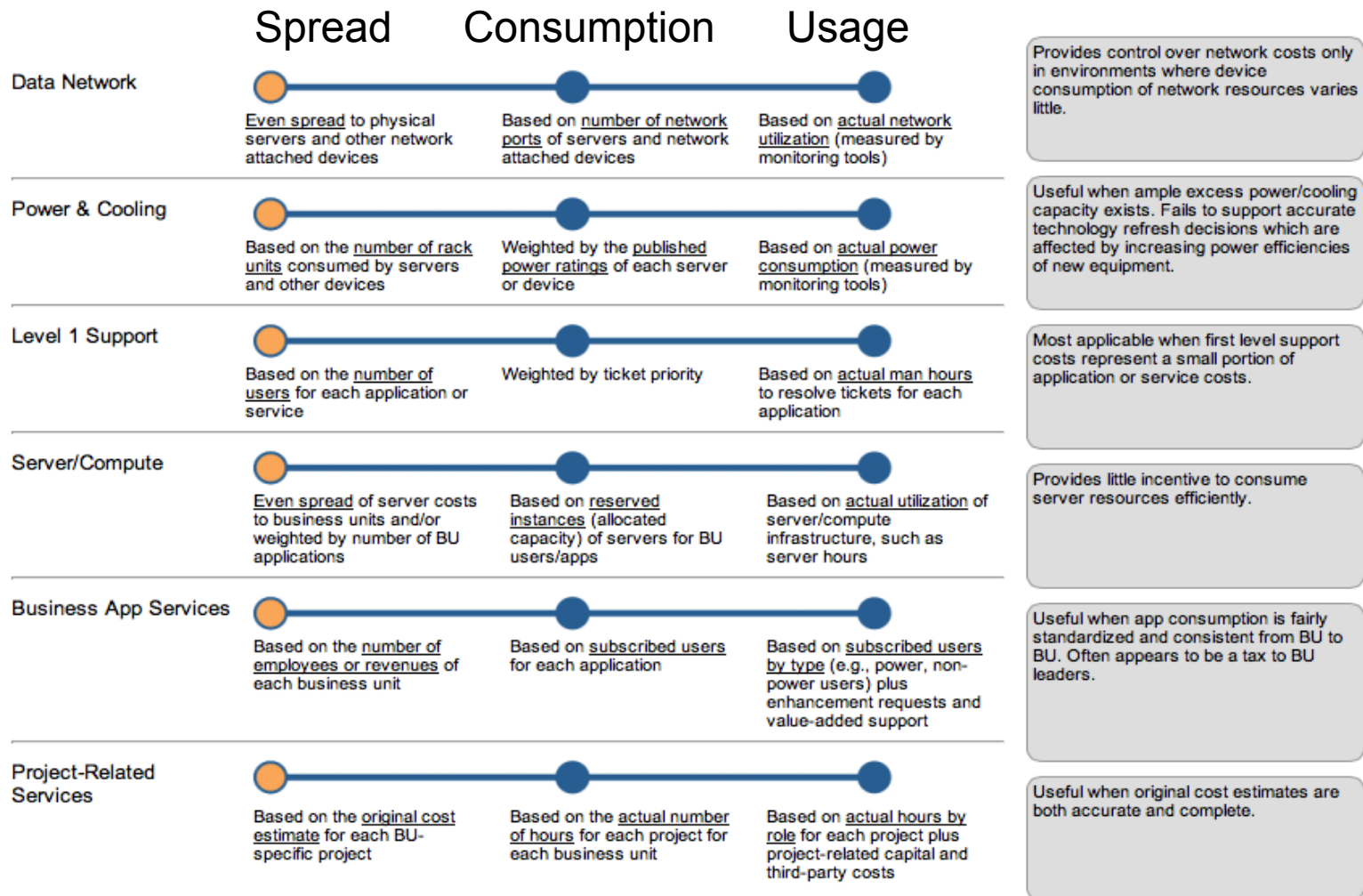
# "Sources of Truth"



# Cost Allocation Taxonomy



# Cost Modeling Approaches



# Cost Modeling Overview

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## U.S. Bank Approach



# Vision

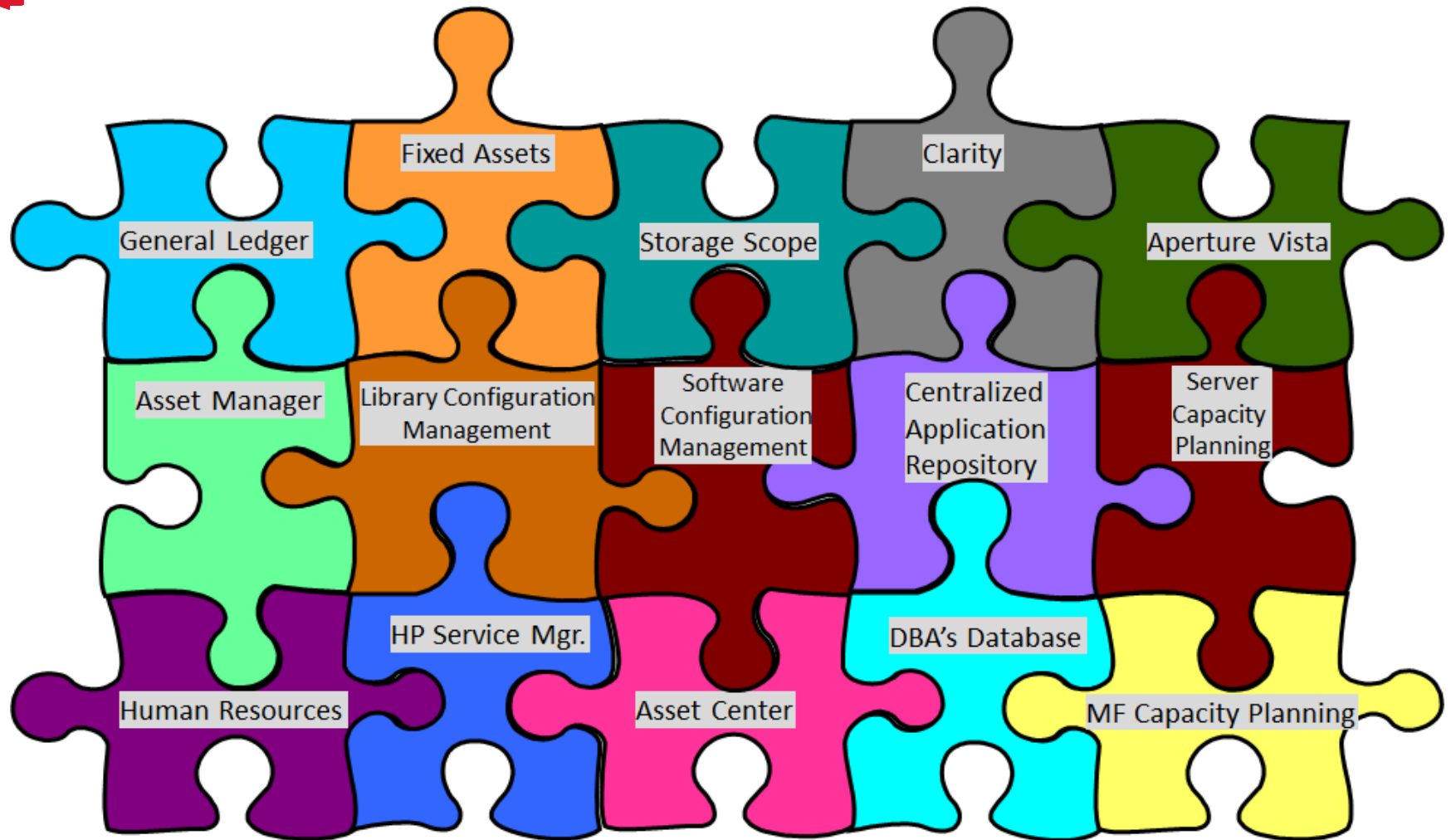


Business View

IT View

Finance View

# U.S. Bank “Sources of Truth”

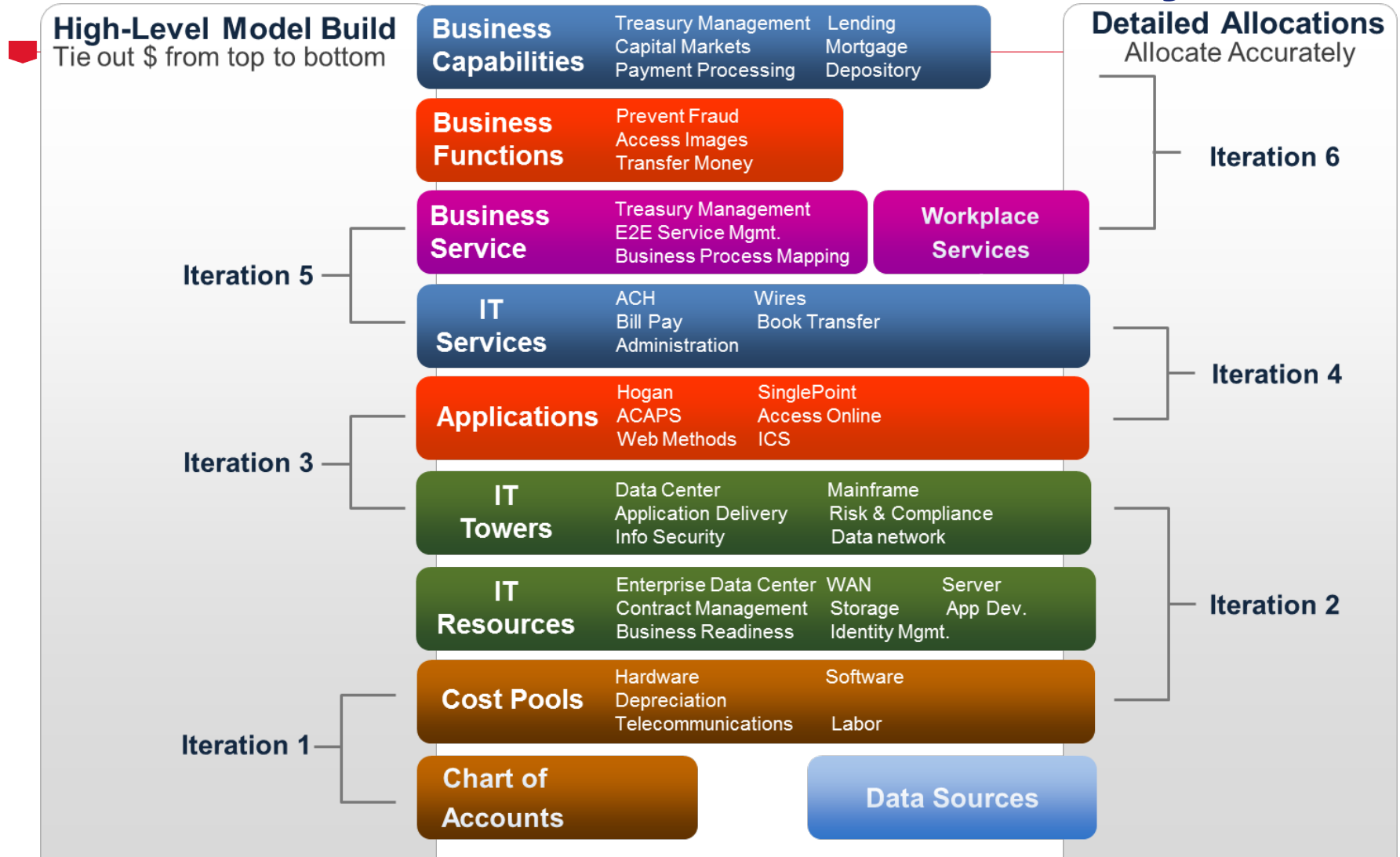


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# U.S. Bank Cost Allocation Taxonomy



# U.S. Bank Modeling Approaches

Default	Allocations based upon even spread or headcount
Mainframe	Allocated to applications based upon MIP, Storage and Software usage
Server	Allocated to applications based upon Server usage and Disaster Recovery Tier
Data Network	Allocated to Network Equipment based upon Circuit size
Data Center	Allocated to Server, Network, and Mainframe hardware
Voice Circuits	Costs more heavily weighted towards branches

# Mainframe Cost Allocation Example\*

## Annual Mainframe Cost

Software \$  
54,147,209  
MIPS \$ 33,638,822  
Storage \$ 16,895,007  
Tape \$ 887,112  
**Total \$105,548,156**

## Application Count

**Total 341**

## Cost Per Application

Software  
\$158,789  
MIPS \$  
98,648  
Storage \$

**Active 160**

Software  
\$338,420  
MIPS  
\$210,243  
Storage

## Per Application Cost

	App #1	App #2	App #3	App #4	App #5
Mainframe Software	\$ 621,108.23	\$ 143,882.84	\$ 251,834.42	\$ 122.42	\$ 19.04
Mainframe CPU	\$ 659,569.57	\$ 146,837.32	\$ 134,803.11	\$ 73.45	\$ 14.06
Mainframe DASD	\$ 150,323.67	\$ 49,691.65	\$ 115,801.64	\$ 239.41	\$ 39.45
Mainframe Tape	\$ 484.25	\$ 165.95	\$ 1,454.12	\$ 1.36	\$ 5.54
<b>Total</b>	<b>\$ 1,431,485.72</b>	<b>\$ 340,577.77</b>	<b>\$ 503,893.28</b>	<b>\$ 436.64</b>	<b>\$ 68.09</b>

344  
\$187,344  
Tape \$  
5,544  
**Total \$658,551**

# Closing Thoughts

- Vision and Cost Allocation Taxonomy are critical
- Data availability and quality - “Reality”
- Cost modeling - “Evolutionary Process”
- Benchmarking
- Executive sponsorship
- Don’t become discouraged

TBM Journey



I refuse to drink the water



## Q & A

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Thank you