U.S. Bancorp

2013 Mid-Cycle Stress Test

Dodd-Frank Act Stress Test Disclosure

September, 2013

Quantitative Disclosure

U.S. Bancorp (the "Company") administers its capital adequacy assessment through its Capital Adequacy Process ("CAP"). The CAP identifies and quantifies the Company's material risks under both expected and stressed economic conditions such as those projected by the Company for the Mid-Cycle submission of the severely adverse stress test as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") Stress Test ("DFAST"). This assessment is made to determine the impact of macroeconomic conditions projected in a severely adverse scenario on the Company's net income, balance sheet, risk-weighted assets and other components of capital. Described below are the quantitative results for the Company under the severely adverse scenario defined by the bank holding company in accordance with the expectations and principles set forth in the Federal Reserve's (the "Fed") publication, "Supervisory Guidance on Stress Testing for Banking Organizations with More Than $10 Billion in Total Consolidated Assets".

2013 Mid-Cycle
U.S. Bancorp Disclosure

Dodd-Frank Stress Testing Results
Projected Stressed Capital Ratios, Losses, Revenues, Net Income before Taxes, and Loan Losses by Type of Loan
U.S. Bancorp Estimates in the Bank Holding Company Defined Severely Adverse Scenario

U.S. Bancorp

The capital ratios are calculated using capital action assumptions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, revenues, net income before taxes, or capital ratios. The minimum capital ratio presented is for the period Q2 2013 to Q2 2015.

Projected Capital Ratios through Q2 2015 under the Bank Holding Company Defined Severely Adverse Scenario

	Actual	Stressed Capital Ratios	
	Q1 2013	Q2 2015	Minimum
Tier 1 Common Ratio (%)	9.1%	9.0%	9.0%
Tier 1 Capital Ratio (%)	11.0%	10.9%	10.9%
Total Risk-based Capital Ratio (%)	13.2%	12.9%	12.9%
Tier 1 Leverage Ratio (%)	9.3%	9.2%	9.2%

Projected Losses, Revenue, and Net Income Before Taxes through Q2 2015 under the Bank Holding Company Defined Severely Adverse Scenario

	Billions of Dollars	Percent of Average Assets
Pre-provision Net Revenue (1)	17.3	5.2%
Other Revenue (2)	0.0	
Less		
Provisions	15.5	
Realized (Gains)/Losses on Securities (AFS/HTM)	0.1	
Trading and Counterparty Losses (3)	0.0	
Other Losses/Gains (4)	0.0	
Equals		
Net Income Before Taxes	1.8	0.5%

(1) Pre-provision net revenue includes losses from operational risk events, mortgage put-back expenses, and OREO costs.
(2) Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.
(3) Trading and counterparty includes mark-to-market losses, changes in credit valuation adjustments (CVA) and incremental default losses.
(4) Other losses/gains includes projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option, and goodwill impairment losses.

Projected Loan Losses by Type of Loans for Q2 2013 through Q2 2015 under the Bank Holding Company Defined Severely Adverse Scenario

	Billions of Dollars	Portfolio Loss Rates (%)
Loan Losses (1)	12.4	5.8%
First Lien Mortgages, Domestic	2.3	4.5%
Junior Liens and HELOCs, Domestic	1.0	6.7%
Commercial and Industrial	1.7	3.9%
Commercial Real Estate	2.3	6.2%
Credit Cards	3.7	19.7%
Other Consumer	1.1	4.0%
Other Loans	0.4	2.1%

(1) Commercial and Industrial loans include small and medium enterprise loans and corporate cards. Other loans include international real estate loans. Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option.

Note: Estimates may not sum precisely due to rounding.

Macroeconomic Scenario

The Company projects the impact of a severely adverse macroeconomic scenario ("stressed economic conditions"), on its net income, balance sheet, risk-weighted assets and capital adequacy. The macroeconomic factors projected by the Company are not interpreted as likely conditions in a recession. Rather, the macroeconomic factor projections describe a hypothetical scenario designed to assess the strength of the Company and its resilience to severely adverse economic environments.

The Company administers the severely adverse macroeconomic scenario definitions through the Company's Economic Scenario Committee ("ESC") consisting of executive officers and subject matter experts. The Company's executive officers include the Chief Financial Officer, Chief Credit Officer, Chief Risk Officer, Chief Operational Risk and Compliance Officer, Treasurer, and the Executive Vice President responsible for financial forecasting and stress testing. Subject matter experts include the Company's Chief Economist and the heads of Capital Planning, Interest Rate Risk Management, and Credit Risk Management.

The Company, through the ESC, defines the macroeconomic indicators that are most relevant to the Company's business activities as:

1. National Unemployment Rate
2. Weekly Initial Unemployment Claims
3. Real Gross Domestic Product (GDP)
4. Real Personal Consumption Expenditures (PCE)
5. S&P 500 Index (SPX)
6. CoStar CRE Property Price Index (PPI)
7. Core Logic Housing Price Index (HPI)
8. Manheim Used Vehicle Index (MUV)
9. VISA Consumer Bankruptcy Filings
10. Federal Funds Rate
11. 1-Month Libor
12. 3-Month Libor
13. 3-Month Treasury
14. 2-Year Treasury
15. 5-Year Treasury
16. 10-Year Treasury
17. 30-Year Treasury
18. 30-Year Mortgage Rate

These variables reflect drivers of economic activity (GDP, PCE and unemployment), equity values (SPX), the value of primary collateral pools (PPI, HPI and MUV), consumer bankruptcy climate (bankruptcy filings), and interest rates (Federal Funds Rate, 1-Month & 3-Month Libor, 30-Year Mortgage Rate and 3-Month, 2-Year, 5-Year, 10-Year and 30-Year Treasuries). These variables are also selected for their impact on the performance of the Company's businesses. The ESC continually reviews the need for

additional macroeconomic factors to ensure consistency in modeling and provide more targeted measures of economic conditions. This set of macroeconomic indicators provides a balanced view of the economy and serves as a valuable testing and planning tool for the Company.

Risks Included in the Stress Test

The Company, through its CAP, identifies its material risks under both expected and stressed economic conditions. The Company's most prominent risk exposures are credit risk, operational risk, interest rate risk, market risk, reputation risk, and liquidity risk. The Company projects the impact of these risks to its balance sheet, net income and capital positions and also considers other financial impacts of stressed economic factors on the performance of the Company's businesses.

Credit risk is the risk of not collecting the interest and/or the principal balance of a loan, investment, or derivative contract when it is due. The Company's stress testing methods estimate and quantify the impact of the stressed economic conditions on its credit losses. Principal drivers of higher credit losses are increases in unemployment and declines in home and commercial real estate values. Losses are separately forecasted for each major portfolio segment. Major asset classes include corporate exposures managed on an individual basis, small business loans, commercial construction loans, commercial mortgages, residential mortgages, home equity loans and lines of credit, consumer and small business credit cards, auto loans, auto leases, and other retail exposures.

Operational risk represents the risk of loss resulting from the Company's operations, including, but not limited to, the risk of fraud by employees or persons outside the Company, unauthorized access to its computer systems, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of internal controls and in data security, compliance requirements, and business continuation and disaster recovery. Operational risk also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to negative publicity. The Company's stress testing process estimates and quantifies the effect of stressed economic conditions on its operational losses and their effect on the Company's net income and capital positions.

Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. The Company's net interest income is significantly affected by prevailing market rates which are driven by stressed economic conditions, by the fiscal and monetary policies of the federal government, and by regulation. The severely adverse macroeconomic scenario developed by the Company includes assumptions about key interest rates. The Company's stress test results incorporate key interest rate assumptions in its estimate of the yield on assets and funding costs, as well as in the composition of its balance sheet, including the fair value of mortgage servicing rights, and their impact on the Company's net income and capital positions.

In addition to interest rate risk, the Company is exposed to other forms of market risk, principally related to trading activities which support customers' strategies to manage their own foreign currency, interest rate risk, and funding activities. The Company's market risks also arise from its hedging activities related to its mortgage servicing rights and residential mortgage loans held for sale. The Company considers the impact of these risks in its projections under the stressed economic conditions.

Reputation risk is the risk to the Company's business, earnings, and capital stemming from negative publicity. Negative public opinion about the financial services industry generally, or the Company specifically, could adversely affect the Company's ability to keep and attract customers, and expose the Company to litigation and regulatory action. Negative publicity can result from the Company's actual or alleged conduct in any number of activities including lending practices, mortgage servicing and foreclosure practices, corporate governance, regulatory compliance, mergers and acquisitions, and related disclosure, sharing or inadequately protecting customer information, and actions taken by government regulators and community organizations in response to that conduct.

Liquidity risk is the possibility that the Company would be unable to meet its financial obligations to depositors, investors, or borrowers as they come due. The Company's liquidity is essential for the operation of its business. Market conditions or other events could negatively affect the Company's access to funds or its borrowing costs. The Company's results reflect the impact of the stressed economic scenario assumptions on its access to debt markets, its interest expense, and its ability to accrete capital.

Idiosyncratic Risk Estimation

In addition to the quantification of the impact associated with the Company's most prominent risks and impact on the Company's businesses due to the stressed macroeconomic scenario, the Company also considers idiosyncratic risks specific to its business activities that may result in financial consequences that are more severe than the results that the various macroeconomic drivers alone would project. One risk considered by the Company is the degree of geographic concentration of its loan portfolios. To address this risk conservatively, the Company further deteriorated unemployment, home prices and commercial property prices within a geographic region that comprises approximately 30 percent of the Company's loan portfolio. This additional stress was designed to project a more severe impact on the Company's loan loss projections. Another risk considered by the Company relates to the revenue streams from its payment services business activities. A significant driver of the Company's payment services revenue in stressed economic conditions is the assumption for the level of customer attrition. The Company models this assumption based on historical experience recognized in previous recessions. The Company recognizes that past experience may not be indicative of attrition levels in stressed economic conditions. Therefore, in order to project a conservative outcome on payment services revenue, the Company assumed that attrition levels in its merchant

acquiring business would be higher than its historical experience. The combination of these conservative management overlays negatively impacts the Company's Tier 1 common ratio by approximately 45 basis points.

Severely Adverse Scenario Definition

The Company's severely adverse scenario is characterized by substantial weakening in economic activity representative of a severe recession. The national unemployment rate is assumed to increase to 11.8 percent in 4Q14 and then to improve gradually, although it remains at highly elevated levels throughout the forecast horizon. The increase in the unemployment rate is comparable to that experienced in the three longest post-World War II recessions (1973, 1981 and 2007). During the recession, real GDP is assumed to decline materially from 3Q13 to 4Q14, with the most significant quarterly annualized decline at 6.7 percent in 4Q13. The decline in real GDP causes the labor market to contract throughout 2014, as another wave of consumer retrenchment ensues. Auto sales decline, which are linked to an overall slowdown in manufacturing and weak consumer demand. Equity prices fall over 50 percent through the course of the recession, bottoming out in 2Q14. The U.S. stock market is assumed to fall sharply and corporate bond spreads to rise above the baseline trend, which weakens business investment and hiring. Rising unemployment and slow income growth during the recession cause the housing market to weaken further. The recovery in housing starts that began in mid-2011 is assumed to stop abruptly at the beginning of 2013, and a second decline to occur during calendar year 2013. Housing prices decline roughly 22 percent by 2Q15, and commercial real estate prices fall by a similar amount. The inflation rate is assumed to decrease throughout the forecast horizon, approaching zero inflation. A weak economy would be a signal that the Fed would keep the Fed Funds Target rate at 0.25 percent throughout the recessionary period. Short-term interest rates are assumed to remain near zero through 2015. The yield on 10-Year Treasury note falls from 1.92 percent in 1Q13 to 1.38 percent in 4Q13 then increases gradually to 2.25 percent by 4Q15. The recession spans through 4Q14. The recovery begins in the first quarter of 2015 but is assumed to proceed slowly through the first half of 2016.

Methodologies Used in the Stress Test

Net Income:

The outcome projected for net income under the stressed economic conditions includes the impact on the Company's pre-provision net revenue, provision for credit losses, realized gain or loss on the Company's available-for-sale ("AFS") or held-to-maturity investment portfolio, and other gains or losses. These include the effect of any goodwill impairment and the benefit to the Company's income tax expense resulting from the ability to carry back losses to taxes paid in prior years and the recovery of tax credits from the Company's tax-advantaged community investments.

Capital Position:
In assessing its capital position, the Company incorporates the net income resulting from the quantification of the effects of the severely adverse stress assumptions on its business activities into its common equity roll-forward. The Company also incorporates the capital actions prescribed in the stress test regulation. These are limited to preferred dividends and dividends on common stock equal to the average quarterly dividends in the previous four quarters. The Company calculates its adjusted common equity by applying regulatory adjustments to its common equity. The Company assesses resulting changes in those items that are either included on a limited basis or completely deducted from regulatory capital. The Company analyzes the effect of the stressed economic conditions on its net deferred tax asset position and its mortgage servicing rights to determine the appropriate level of deductions from regulatory capital. The Company also adjusts the level of its goodwill or intangibles deducted from capital to reflect impairment, if any.

Having determined the capital ratio numerator, the Company calculates, according to the capital regulations, its credit risk-weighted assets for on and off balance sheet credit exposures. To this amount, the Company adds the risk-weighted assets related to its market risk. The Company's capital position is determined by the ratio of the capital in the numerator and the risk-weighted assets in the denominator.

In addition, the Company considers the potential for impairment of goodwill and other intangible assets under stressed economic conditions using analyses and methodologies similar to those employed in its annual impairment testing, incorporating the impact of the stressed conditions on the interest income, noninterest income, and credit losses of each reporting unit.

Global Market Shock:
The Company has nominal European exposure and, therefore, projections do not include a global financial market shock in its scenarios. The Company does, however, consider the impact of the stressed economic conditions on its trading assets and the outcome is included in the Company's pre-provision net revenue.

General descriptions of the methodologies used in the stress test are described below.

Pre-provision net revenue: the projections under the stressed economic conditions are produced for:

- the Company's balance sheet and related net interest income;
- the Company's fee revenue, including losses related to the repurchase of mortgage loans from investors due to a breach in representations or warranties, the impact on earnings related to the Company's mortgage servicing rights and other mortgage production fees, losses related to the Company's trading portfolio and the stressed outcome of other product fee

categories including the Company's payment services, retail services, trust and investment services and other commercial product fees; and,
- the impact on the Company's expenses, which includes anticipated operational loss events that are expected in severely adverse economic conditions and increases in litigation and other possible legal expense related to projected loss events.

Balance sheet and related net interest income and fee income:

The Company projects the balance sheet, net interest income and fee income under the stressed economic conditions on the basis of regression modeling when significant correlations to macroeconomic factors have been identified. When significant correlations to macroeconomic factors are not identified, the Company uses other forecasting tools and analytics, which include management's assessment of outcomes in the stressed economic conditions and consider, as a basis, the historical relationship of fee and balance sheet performance to macroeconomic factors under specific economic conditions. In both of these approaches, the Company analyzes relationships that occurred in past recessionary and non-recessionary periods to determine the strongest correlation to economic drivers. The Company also realizes that relying solely on historical relationships may not predict future outcomes and may, based on management's discretion, apply more conservative overlays to modeled outcomes.

The Company's models and other approaches rely on several assumptions. A key assumption is that the Company does not predict changes in consumer behavior in stressed economic conditions. Rather, it relies on behavior patterns recognized in previous downturn periods. Another assumption is that balance sheet growth and related revenues observed in the previous economic downturn may not predict growth in future economic downturns, as the flight-to-quality realized in previous recessions may not be repeated. Management assesses the outcome of all financial projections to determine if additional conservative adjustments are required based on uncertainties in the modeling assumption or other factors not captured by the models or tools. These adjustments are meant to produce higher levels of financial stress in the severely adverse scenario and also address risks that may not be predicted by existing modeling approaches, such as those idiosyncratic results quantified in the Company's results.

Balance Sheet and Net Interest Income:
Balance sheet outcomes are projected for loans, loans held for sale, investment securities, deposits, and equity. Residential mortgage and retail credit card balance projections are based on regression models. Residential mortgage and retail credit card balances represent approximately 30 percent of the Company's total loan portfolio. For the projection of other balance sheet loan categories, the Company relies on tools and analytics that are based on historical analyses. As part of the projection process utilizing tools, management inserts assumptions within the tools to project volumes which

consider recent trends, new business activity, portfolio runoff and stressed economic conditions. Net funding levels are projected based on the outcome of the simulation modeling results of all other balance sheet items.

The severely adverse macroeconomic assumptions result in a general contraction of business activity, which is reflected in the Company's balance sheet in the form of reduced on and off balance sheet exposures. This reduction in volumes will reduce risk-weighted assets. However, the macroeconomic assumptions impact the Company's loan portfolios with differing degrees of severity. This differential will lead to asset mix changes which will likely affect the Company's weighted average risk-weights from period to period, either emphasizing or offsetting the effect of reduced on and off balance sheet exposures.

Net interest income is modeled using Quantitative Risk Management (QRM) software. The net interest income projection is a direct result of the QRM software. The simulation model employs the balance sheet projections that are based on the stressed economic environment, and the rate forecasts and other key economic indicators such as HPI, as provided in the Company's severely adverse macroeconomic scenario. The model simulates the expected behavior of existing balance sheet volumes based on account characteristics, applies the stressed balance sheet projections, and calculates new business volumes. New business volume characteristics are based on the Company's historical run rate and include adjustments modeled for stressed economic environments. The Company assumes new business loan spreads will remain consistent with the spreads recognized in the current expected environment. This assumption is a conservative approach, as previous recessions produced widening spreads.

Fee Income:

More than half of the Company's fee income is projected using regression modeling in the stress scenario, the two largest components being revenues from Mortgage Banking and the Payment Services groups. The Mortgage Banking model relies primarily on the macroeconomic paths of Unemployment, HPI, the 10-Year Treasury and the 30-Year Mortgage Rate to statistically determine the impact on mortgage fee income. Payment Services consists of the Credit Card, Corporate Payments and Merchant Processing businesses. Each of these businesses relies on regression modeling, with strong correlations to GDP and Unemployment, for predicting fee income in the stressed scenarios. Model results are reviewed to ensure that results represent the severity of the scenario and, if necessary, a conservative management overlay may be applied to further stress results.

The remaining fee income categories use tool-driven analytics relying on management expertise and historical trending from recessionary and non-recessionary periods to project revenues in stressed economic conditions.

Tools are used for certain fee categories where the Company's historical financial performance is not highly correlated to macroeconomic variables. These fee revenue categories, such as Commercial Lending, Investment Banking, Investment Management, Investment Services and Treasury Management (a component of Treasury Services) rely on the same consistent view of the macroeconomic environment as those businesses using regression modeling. Each business line individually evaluates the macroeconomic scenario factors to determine which drivers are significant for their respective fee income categories. Key drivers include, but are not limited to, sales, new business, attrition, and overall consumer behavior.

Expenses:

The Company projects the changes to expenses in stressed economic conditions. These are attributable principally to increases in operational losses, increases in credit foreclosure, litigation, legal, and other mortgage related foreclosure costs.

Increases in expense categories such as collections, legal, and other real estate owned are not statistically modeled but are primarily derived using, as a basis, the historical relationship of these expenses to the level of the Company's credit-related charge-offs. As the overall economy deteriorates in the stress scenario, charge-offs are projected to increase and, by definition, these related expenses will increase proportionately. The impact to mortgage-related foreclosure expenses are captured by evaluating the critical underlying macroeconomic drivers, most notably, the Unemployment Rate and the overall health of the housing market as expressed by the HPI.

Variable expenses that can be tied directly to fee revenue, such as variable compensation and technology or other outside data services, are adjusted based on their relationship to the respective fee revenue category.

Operational risk loss estimates rely on models that establish a statistical link between the operational risk loss profile of the Company and the relevant macroeconomic factors, including GDP, Unemployment and the S&P 500, which results in loss (or event) frequency. Loss severity is conservatively modeled using average severity (dollar amount) from a pooled data set of internal and external data resulting in a severity much higher than internal data would project. The resulting frequency is then multiplied by the average severity resulting in operational risk outcomes projected for the stress scenario.

Finally, the Company uses a conservative approach when considering the reduction in discretionary expenses related to personnel and other business-related costs. The Company considers only a select few expense categories where the ability to make adjustments to spending are clear and supportable. Expense reductions reflected in the severely adverse scenario are based on the actual cost savings experienced by the Company during the most recent recession and management expectations for discretionary cost containment.

Provision for credit losses: The Company projects net credit losses and provision expenses under the stress economic conditions based on several key inputs. These include the macroeconomic factors of the scenario, the Company's portfolio composition at the start of the forecast horizon, projections of portfolio changes over the forecast horizon, and projections of defaults and losses. The Company relies on account-level models that estimate defaults and losses for each quarter of the forecast horizon. Forecast losses reflect the risk characteristics of each exposure or exposure segment. Losses are forecast at an account level or a segment level. The Company evaluates loss forecasts produced by its models by considering past portfolio performance, current portfolio composition, and expectations of future performance given the scenario's economic assumptions.

Losses are forecast separately for each major portfolio segment. Major asset classes include corporate exposures managed on an individual basis, small business loans, commercial construction loans, commercial mortgages, residential mortgages, home equity loans and lines of credit, consumer and small business credit cards, auto loans, auto leases, and other retail exposures. The effects of concentrations due to geography or industry are incorporated.

The Company's models rely on several assumptions. A key assumption is that past experience is indicative of future performance. This assumption is based on the premise that borrower behaviors observed historically in relation to macroeconomic trends will hold in the future. This assumption is tested as borrower behaviors change over time. In addition, changes in underwriting, law, or regulation often alter repayment patterns or the accounting classification of losses. Some of these factors are known at the beginning of the forecasting horizon, while others are not. When identified, the Company mitigates these risks by conservatively adjusting modeled loss and provision forecasts to account for model uncertainty, changes in underwriting, regulation, law, or borrower behavior. These adjustments are designed to mitigate risks associated with the assumption that prior experience can be used to model the future.

Realized gain or loss on the Company's available-for-sale or held-to-maturity investment portfolio and calculation of OTTI: The Company projects the fair market values of its non-agency mortgage backed securities ("MBS"), corporate securities, and municipal securities under stressed economic conditions. For non-agency MBS securities, changes in fair value are driven primarily by changes in unemployment. For corporate securities, the Company uses regression modeling that is correlated to housing prices and gross domestic product and an internal credit assessment of the security issuer's financial condition. Based on the results of this assessment, the Company may conservatively project other than temporary impairment ("OTTI") at the lowest fair market value modeled during the forecast period (less amortized cost). These same assumptions drive OTTI projections in the stressed economic conditions. For municipal securities, OTTI is modeled using a combination of ratings-based downgrade assumptions and an analysis of projected

changes in the spreads for securities that are downgraded below a certain ratings threshold, based on trends recognized in previous recessions. OTTI is calculated as the difference between fair market value and the amortized costs for the securities downgraded below investment grade levels.

Income taxes: The Company's process for estimating the impact of income taxes on earnings and capital involves estimating the periodic effective tax rate to apply to earnings, estimation of the deferred tax position at each period-end based on estimates for the most significant temporary differences, and measuring any deferred tax limitations under the relevant capital framework.

The effective tax rate differs from the marginal tax rate principally as a result of tax credits generated by the Company's tax-advantaged community investments and, to a lesser extent, income from the Company's tax-exempt investments. The Company includes estimates of state income taxes in its effective tax rate based on historical income allocation across the states.

Recovery of any deferred tax asset is based on whether there is sufficient taxable income in prior periods to support recovery through carryback to those periods if the temporary differences were to reverse at each period end and considers the potential impact of the Alternative Minimum Tax.

Changes in capital positions: The Company estimates that the effect of the stressed economic conditions, including the Dodd-Frank Act capital actions, on the Company's capital levels reduces the Company's Tier 1 common ratio by approximately 10 basis points over the nine-quarter stress period from March 31, 2013 to June 30, 2015.

The decrease in the Tier 1 common ratio is due to a reduction in the Company's regulatory adjusted common equity ("ACE") offset by an immaterial decrease in net deductions from Tier 1 common equity. The change in net deductions consists principally of amortization of disallowed intangibles and a modest increase in the deduction for mortgage servicing rights.

The principal cause for the decrease in the Company's ACE is dividends on common shares. The capital distributions to common shareholders prescribed by DFAST in the final eight quarters of the stress period are limited to quarterly dividends on common stock in an amount consistent with the quarterly average dollar amount of common stock dividends that the Company paid over the last four quarters from 2Q12 through 1Q13. Other material reductions in ACE are driven by common share repurchases estimated to have been completed in the initial quarter (2Q13) of the stress period with a negative impact on the Tier 1 common ratio of approximately 20 basis points. Repurchases of common stock are suspended over the remainder of the nine-quarter stress period. Additional reductions in ACE over this period are the result of dividend payments on preferred stock.

The adverse effect on the Company's ACE of these capital distributions is partially offset by net income, of which nearly 40 percent is earned in the initial quarter of the stress period.

The Company's additional Tier 1 Capital is unchanged over the stress period while the Tier 2 Capital reduction, caused principally by the amortization of the capital value of the Company's subordinated debt, reduces the Total Capital ratio by approximately 20 basis points.

Changes in Regulatory Capital Ratios and the Tier 1 Common Ratio

The capital actions in the scenario are prescribed by the Fed in their regulations for company-run stress tests for covered companies. The capital actions are limited to dividends equal to the quarterly average dollar amount of common stock dividends that the Company paid in the previous four quarters, payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter, and an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the Company's regulatory capital.[1]

Tier 1 Common Ratio – Declined by 0.1 percent from 9.1 percent at 1Q13 to 9.0 percent at 2Q15

The Company's Tier 1 common ratio declines by 10 basis points over the stress test period. Of this change, 145 basis points are attributed to dividend payments on common and preferred stock. The Company's earnings over the nine-quarter stress test period offset 85 basis points of the negative impact of the capital distributions. Taken together, these two factors resulted in a 58 basis point net decline in the Company's Tier 1 common ratio. All other changes to Tier 1 common equity, including goodwill, intangibles, and other regulatory capital deductions, combined to reduce the Tier 1 common ratio by an additional 2 basis points. Total risk weighted assets calculated on the basis of the Basel I risk-based capital rules were substantially lower from March, 2013 through June, 2015. The decline in the Company's balance sheet over the stress horizon is attributed primarily to the stressed economic conditions. The change in risk-weighted assets resulted in a 46 basis points increase in the Company's capital ratios.

Tier 1 Capital Ratio – Declined by 0.1 percent from 11.0 percent at 1Q13 to 10.9 percent at 2Q15

The Company's additional Tier 1 capital balance is unchanged over the stress horizon. The 10 basis points decline in the Company's Tier 1 capital ratio is attributed solely to changes in the level of the Company's Tier 1 common equity.

[1] As defined by the Board of Governors of the Federal Reserve System, Supervisory and Company-Run Stress Test Requirements for Covered Companies, 12 CFR Part 252

Total Risk-based Capital Ratio – Declined 0.3 percent from 13.2 percent at 1Q13 to 12.9 percent at 2Q15

The Company's Tier 2 capital ratio declined by 30 basis points over the stress test period, of which 10 basis points is due to the change in Tier 1 common equity as described above. The remaining 20 basis point decline was due primarily to the amortization of the regulatory capital value of the Company's subordinated debt as these capital instruments approach their maturity dates.

Tier 1 Leverage Ratio – Declined 0.1 percent from 9.3 percent at 1Q13 to 9.2 percent at 2Q15

The reduction in the Tier 1 Leverage ratio is a result of the reduction in Tier 1 capital described above as quarterly average assets were virtually unchanged over the period.