usbancorp

June 2022

2022 annual stress test disclosure

Dodd-Frank Act stress test results

Supervisory severely adverse scenario

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Forward-looking statements

This report contains forward-looking statements about U.S. Bancorp, including estimated future capital ratios, risk-weighted assets, revenue, net income before taxes and loan losses that are based on a hypothetical stress scenario defined by our regulators and contains assumptions that may not come to pass in the future. The stress test results are not intended to reflect management's expected future financial conditions or results and there can be no assurance that U.S. Bancorp's actual results would match the results disclosed herein if the assumed hypothetical scenario was to occur. Factors that could cause U.S. Bancorp's actual results to differ from those described in the forward-looking statements can be found in U.S. Bancorp's Annual Report on Form 10-K for the year ended December 31, 2021, on file with the Securities and Exchange Commission. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

Summary of assumptions

This disclosure reflects the stress test results for U.S. Bancorp (the “Company”) for nine quarters (1Q2022 – 1Q2024) under the supervisory severely adverse scenario as published by the Board of Governors of the Federal Reserve in February of 2022.

- This stress test was conducted for the 2022 annual Dodd-Frank Wall Street Reform and Consumer Protection Act Stress Test (“DFAST”).
- This disclosure includes capital action assumptions as set forth in the DFAST requirements which consist of 1) no dividend payments on any instruments that qualify as common equity tier 1 capital; 2) continued payments made on instruments that qualify as additional tier 1 capital or tier 2 capital equal to the stated dividend, interest, or principal due on such instruments; 3) no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and 4) no common stock or preferred stock issuances.
- The Company is not subject to the global market shock or counterparty default component, by Federal Reserve definition.
- The Company’s stress testing models rely on several assumptions, including the assumption that past experience is indicative of future performance. This assumption is based on the premise that behaviors observed historically within a risk segment in relation to macroeconomic trends will occur in the future. There are risks that this assumption is inappropriate in forward-looking scenarios. When identified, the Company mitigates these risks by making adjustments to modeled forecasts.

Supervisory severely adverse scenario

Key variables[1]:

The supervisory severely adverse scenario is characterized by a severe global recession accompanied by a period of heightened stress in commercial real estate and corporate debt markets.

- **U.S. Unemployment** climbs to a peak of 10 percent in the third quarter of 2023, a 5 ¾ percentage point increase relative to its fourth quarter 2021 level
- **Real GDP** declines more than 3 ½ percent from the fourth quarter of 2021 to its trough in the first quarter of 2023
- Asset prices drop sharply in this scenario
  - **Equity prices** fall 55 percent through the fourth quarter of 2022
  - **House prices** fall 28 ½ percent through the fourth quarter of 2023
  - **Commercial real estate prices** fall nearly 40 percent through the fourth quarter of 2023
- The path of the yield curve follows that of long-term interest rates; the **3-month Treasury rate** remains near zero throughout the scenario, and the **10-year Treasury** yield drops to ¾ percent during the first quarter of 2022 and remains unchanged in the second and third quarters of 2022, after which it gradually rises to 1 ½ percent by the end of the scenario
- **Credit Spreads**: the spread between yields on investment-grade corporate bonds and yields on 10-year Treasury securities widens to 5 ¾ percentage points by mid-2022, an increase of close to 4 ¾ percentage points relative to the fourth quarter of 2021
- **Mortgage Rates:** the spread between mortgage rates and 10-year Treasury yields widens to 3 percentage points by mid-2022 before declining to slightly above 1 ½ percentage points at the end of the scenario

(1) Excerpts from the Board of Governors of the Federal Reserve System “2022 Stress Test Scenarios,” February 2022.

Risks included in the stress test

The Company maintains a risk management framework that establishes the necessary infrastructure to identify, measure and assess risks given the Company's organizational structure, business activities, size and complexity of operations. The Company projects the impact of those risks deemed material under both expected and stressed conditions to its on- and off-balance sheet exposures, earnings and capital positions through its Capital Adequacy Process.

The Company's most prominent risk exposures are credit, interest rate, market, liquidity, operational, compliance, strategic and reputation.

- **Credit risk** is the risk of loss associated with a change in the credit profile or the failure of a borrower or counterparty to meet its contractual obligations.
- **Interest rate** risk is the current or prospective risk to earnings and capital, or market valuations, arising from the impact of changes in interest rates.
- **Market risk** arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities, mortgage loans held for sale, mortgage servicing rights and derivatives that are accounted for on a fair value basis.
- **Liquidity risk** is the risk that financial condition or overall safety and soundness is adversely affected by the Company's inability, or perceived inability, to meet its cash flow obligations in a timely and complete manner in either normal or stressed conditions.
- **Operational risk** is the risk to current or projected financial condition and resilience arising from inadequate or failed internal processes or systems, people (including human errors or misconduct), or adverse external events, including the risk of loss resulting from breaches in data security. Operational risk can also include the risk of loss due to failures by third parties with which the Company does business.
- **Compliance risk** is the risk that the Company may suffer legal or regulatory sanctions, financial losses, and reputational damage if it fails to adhere to compliance requirements and the Company's compliance policies.
- **Strategic risk** is the risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment.
- **Reputation risk** is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from negative public opinion. This risk may impair the Company's competitiveness by affecting its ability to establish new relationships or services, or continue serving existing relationships.

In addition to the risks identified above, other risk factors exist that may impact the Company. Refer to "Risk Factors" on pages 137-150 of U.S. Bancorp's Annual Report for the year ending December 31, 2021, for a detailed discussion of these factors, which may be found at usbank.com by clicking on "About us" and then "Investor Relations" and then "Financial Information" and "Annual Reports."

Summary of methodology

The Company estimates net income under stressed economic conditions, which includes the impact on the Company's PPNR, provision for credit losses, realized gains or losses on the Company's investment portfolio, and other gains or losses, primarily by using model-based approaches when strong statistical relationships with intuitive macroeconomic factors have been identified. When strong statistical relationships with intuitive macroeconomic factors are not identified, or data limitations exist that may limit the reliability of model outcomes, the Company employs other forecasting methodologies and analytics, which include management's assessment of outcomes in the stressed economic conditions.

Balance Sheet and Pre-provision Net Revenue ("PPNR")

- Balance sheet positions are projected for loans, loans held for sale, investment securities, other assets, deposits, wholesale borrowings and other liabilities with consideration given to recent trends, new business activity, portfolio run-off and stressed economic conditions.
- Net Interest Income is constructed using an interest rate simulation process, which employs balance sheet projections and applies interest rate forecasts and other economic indicators, incorporating the expected behavior of both existing and new balance sheet volumes based on account characteristics, historical observations as well as consideration of model results.
- Non-interest income is projected based on historical trends from recessionary and non-recessionary periods and management expertise.
- Variable expenses that can be tied directly to fee revenue are adjusted based on their respective relationship, and a conservative approach is used when considering discretionary expenses related to personnel and other business-related costs where the ability to adjust spending is clear and supportable.
- Operational loss estimates are projected based on a comprehensive analysis of each operational risk category. Macroeconomic models are used where significant and intuitive macroeconomic relationships are identified and can be statistically modeled. For segments where there is no identified linkage with macroeconomic factors, analytical tools and scenario analysis are leveraged, which rely on core operational risk scenario workshops conducted by subject matter experts across the Company.

Realized Gain or Loss on Available-for-Sale or Held-to-Maturity Investment Portfolio

- Projections of the fair market values of credit sensitive securities are driven principally by changes in credit quality and are developed using regression modeling that is correlated to Treasury BBB corporate bond yields and S&P 500 Index along with a forward ratings transition assessment during the stressed forecast horizon.
- Impairment is recognized for any credit sensitive security that is projected to transition to a below investment grade rating (based on the rating transition analysis) as the difference between its modeled fair market value and its amortized cost.

Summary of methodology

Provision for Credit Losses

- The Company projects two components of the provision for credit losses ("provision")- net realized credit losses on forecasted defaulted loans and the change in the allowance for credit losses resulting in either provision increases or decreases dependent on reserve build or release, respectively. Provision expenses under stressed economic conditions consider beginning period balances, related credit quality and portfolio composition, forecasts of portfolio balances and forecasts of defaults and losses.
- Loss forecasting models are account-level models that forecast quarterly defaults and net charge-offs.
- Losses are forecast separately by portfolio and incorporate state or regional effects, and model risk drivers vary by portfolio and include borrower characteristics and macroeconomic factors.
- Credit loss allowance changes are projected consistent with the CECL accounting standard, accounting for forecasted credit losses, portfolio growth, and changes in asset quality and economic expectations over the forecast horizon.

Income Taxes

- The impact of income taxes on earnings and capital involves estimating the periodic effective tax rate to apply to earnings, estimating the deferred tax position at each period-end based on estimates of 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.

Capital

In assessing its capital position, the Company incorporates the following into its common equity roll-forward:

- Net income resulting from the quantification of supervisory severely adverse scenario impacts on its business activities;
- Capital actions prescribed in the DFAST stress test regulation;
- Regulatory adjustments to common equity including those items that are either included on a limited basis or completely deducted from regulatory capital;
- Goodwill (plus potential impairment) and intangibles deducted from capital to reflect amortization; and
- Impacts of stressed economic conditions on its net deferred tax asset position, mortgage servicing rights and equity investments to determine the appropriate level of deductions from regulatory capital.

DFAST results – capital ratios supervisory severely adverse scenario

Capital ratios, actual 2021:Q4 and projected 2022:Q1-2024:Q1					
			Supervisory Severely Adverse (1)		Minimum versus
Regulatory Ratio	Regulatory Minimum	Actual 2021:Q4	Ending	Minimum	2021:Q4
Common equity tier 1 capital ratio	4.5%	10.0%	8.7%	8.5%	-1.5%
Tier 1 capital ratio	6.0%	11.6%	10.3%	10.2%	-1.4%
Total capital ratio	8.0%	13.4%	12.3%	12.1%	-1.3%
Tier 1 leverage ratio	4.0%	8.6%	7.5%	7.4%	-1.2%
Supplementary leverage ratio	3.0%	6.9%	6.1%	6.1%	-0.9%

(1) The capital ratios are calculated using the capital action assumptions provided within the supervisory stress testing rules. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. The minimum capital ratios are for the period 2022:Q1 to 2024:Q1.

DFAST results – net income & risk-weighted assets supervisory severely adverse scenario

Projected losses, revenue, and net income before taxes through 2024:Q1

Supervisory Severely Adverse Scenario

	Billions of dollars	Percent of average assets (1)
Pre-provision net revenue	13.5	2.4%
equals		
Net interest income	27.5	4.8%
Noninterest income	18.7	3.3%
less		
Noninterest expense (2)	32.7	5.7%
Other revenue (3)	0.0	
less		
Provisions for loan and lease losses	17.5	
Credit losses on investment securities (AFS/HTM) (4)	(0.1)	
Trading and counterparty losses (5)	0.0	
Other losses/gains (6)	0.0	
equals		
Net income before taxes	**(3.9)**	**-0.7%**

Memo items

Supervisory Severely Adverse Scenario

	Billions of dollars	Percent of average assets (1)
Other comprehensive income (7)	0.0	
Other effects on capital:	*Actual 2021:Q4*	*2024:Q1*
AOCI included in capital (billions of dollars)	(0.0)	(0.0)

Risk-Weighted Assets

Supervisory Severely Adverse Scenario

	Actual	Projected
Billions of dollars	Actual 2021:Q4	2024:Q1
Risk-weighted assets (8)	418.6	407.8

Note: estimates may not sum precisely due to rounding

(1) Average assets is the nine-quarter average of total assets.
(2) Noninterest expense includes losses from operational-risk events and other real-estate-owned (OREO) costs.
(3) Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.
(4) Projection of expected credit losses on securities is incorporated in the allowance for credit losses.
(5) Trading and counterparty losses include mark-to-market and credit valuation adjustment (CVA) losses.
(6) Other losses/gains include projected change in fair value of loans held for sale and loans held for investment and measured under the fair-value option, losses/gains on hedges on loans measured at fair value or amortized cost, and goodwill impairment losses.
(7) Other comprehensive income is reflected as zero because accumulated other comprehensive income (AOCI) is excluded from capital for Category III firms, including U.S. Bancorp.
(8) For each quarter, risk-weighted assets are calculated under the Board’s standardized approach to risk-based capital in 12 C.F.R. pt. 217, subpart D.

DFAST results – loan losses supervisory severely adverse scenario

Projected loan losses, by type of loan, 2022:Q1-2024:Q1

Supervisory Severely Adverse Scenario

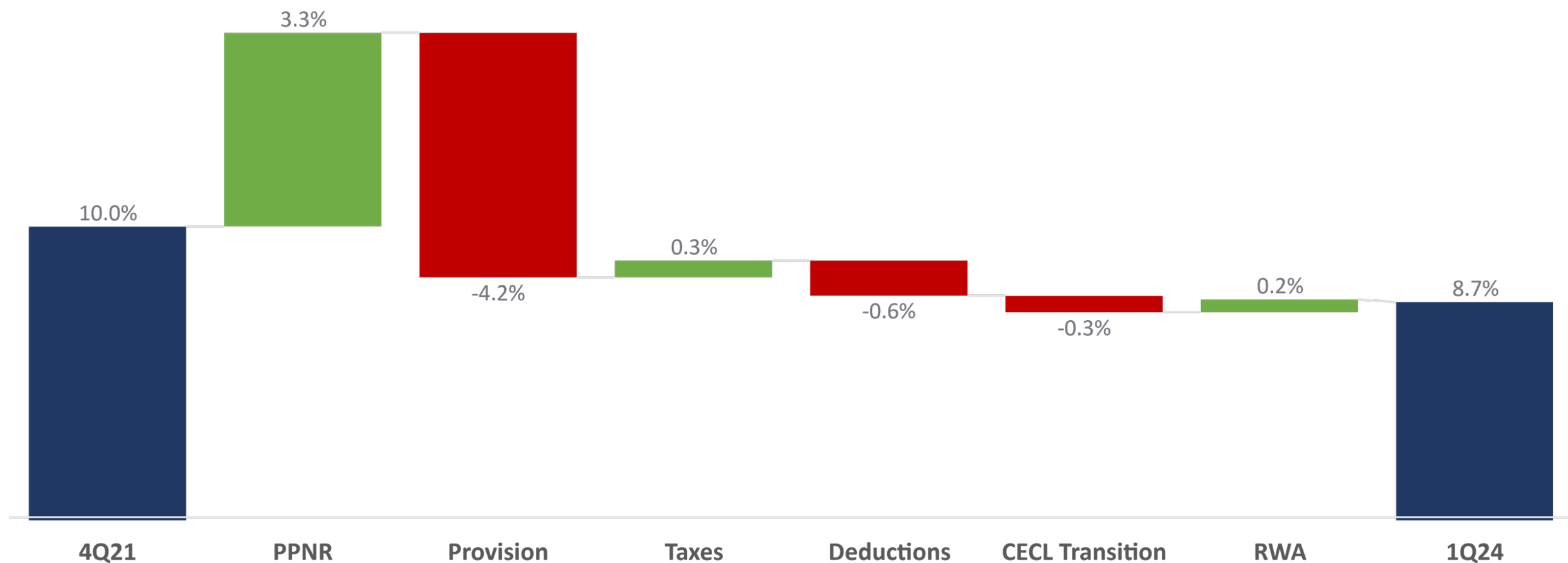
Loan type	Billions of dollars	Portfolio loss rates (percent) (1)
Loan losses	**14.5**	**4.8%**
First-lien mortgages, domestic	1.7	2.1%
Junior liens and HELOCs, domestic	0.4	4.3%
Commercial and industrial (2)	3.2	3.7%
Commercial real estate, domestic	2.6	7.5%
Credit cards	4.6	21.0%
Other consumer (3)	1.3	2.8%
Other loans (4)	0.6	2.3%

(1) Average loan balances used to calculate portfolio loss rates exclude loans held for sale, loans held for investment under the fair-value option, and Paycheck Protection Program loans and are calculated over nine quarters.
(2) Commercial and industrial loans include small- and medium-enterprise loans and corporate cards.
(3) Other consumer loans include student loans and automobile loans.
(4) Other loans include international real estate loans.

Common Equity Tier 1 (CET1) capital ratio – waterfall supervisory severely adverse scenario

Key Drivers

- Higher provision expense driven by credit losses is partially offset by an increase in pre-provision net revenue and a favorable tax impact
- CET1 impact driven primarily by regulatory deductions related to deferred tax assets arising from net operating losses and tax credit carryforwards and the transitional regulatory requirements related to the current expected credit losses methodology
- Modest decrease in risk-weighted assets (RWA)[1] mainly driven by a decline in loan balances as a result of charge-offs and weakened loan demand



(1) RWA projections are not comparable to the Federal Reserve projections as the Company reflects its expected balances under the scenario conditions while the Federal Reserve maintains flat RWA assumptions.

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2022 annual stress test disclosure

Dodd-Frank Act stress test results

Supervisory severely adverse scenario

Quantitative disclosure

U.S. Bank National Association (the "Bank") is U.S. Bancorp's (the "Company") principal banking subsidiary, with total assets representing the majority of the Company's total consolidated assets as of December 31, 2021. The risks included in the Bank's annual company-run stress test, the methodologies employed to assess these risks and the processes used to measure net income, balance sheet, risk-weighted assets and other components of capital are determined at the consolidated Company level and applied uniformly across all of the Company's legal entities, including the Bank.

The Company and the Bank administer their capital adequacy assessment through the Company's Capital Adequacy Process. The Capital Adequacy Process identifies and quantifies the Company's material risks under both expected and stressed economic conditions such as those projected by the Board of Governors of the Federal Reserve System ("Federal Reserve") and the Office of the Comptroller of the Currency for the submission of the supervisory severely adverse stress test as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act Stress Test. This assessment is made to determine the impact of macroeconomic conditions projected in a severely adverse scenario on the Bank's net income, balance sheet, risk-weighted assets and other components of capital. Described below are the quantitative results for the Bank under the supervisory severely adverse scenario defined by the Office of the Comptroller of the Currency. The supervisory severely adverse scenario defined by the Office of the Comptroller of the Currency is consistent with that defined by the Federal Reserve.[1]

(1) 2022 DFAST Scenarios Narrative, Office of the Comptroller of the Currency, February 10, 2022

DFAST results – capital ratios supervisory severely adverse scenario

Capital ratios, actual 2021:Q4 and projected 2022:Q1-2024:Q1					
			Supervisory Severely Adverse (1)		Minimum versus
Regulatory Ratio	Regulatory Minimum	Actual 2021:Q4	Ending	Minimum	2021:Q4
Common equity tier 1 capital ratio	4.5%	10.9%	10.4%	10.0%	-0.9%
Tier 1 capital ratio	6.0%	11.0%	10.5%	10.1%	-0.9%
Total capital ratio	8.0%	12.9%	12.9%	12.4%	-0.5%
Tier 1 leverage ratio	4.0%	8.2%	7.6%	7.4%	-0.8%
Supplementary leverage ratio	3.0%	6.6%	6.2%	6.1%	-0.5%

(1) The capital ratios are calculated using the capital action assumptions provided within the supervisory stress testing rules. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. The minimum capital ratios are for the period 2022:Q1 to 2024:Q1.

DFAST results – net income & risk-weighted assets supervisory severely adverse scenario

Projected losses, revenue, and net income before taxes through 2024:Q1

Supervisory Severely Adverse Scenario

	Billions of dollars	Percent of average assets (1)
Pre-provision net revenue	14.5	2.6%
equals		
Net interest income	28.0	5.0%
Noninterest income	18.2	3.2%
less		
Noninterest expense (2)	31.7	5.7%
Other revenue (3)	0.0	
less		
Provisions for loan and lease losses	17.5	
Credit losses on investment securities (AFS/HTM) (4)	(0.1)	
Trading and counterparty losses (5)	0.0	
Other losses/gains (6)	0.0	
equals		
Net income before taxes	**(2.9)**	**-0.5%**

Memo items

Supervisory Severely Adverse Scenario

	Billions of dollars	Percent of average assets (1)
Other comprehensive income (7)	0.0	
Other effects on capital:	*Actual 2021:Q4*	*2024:Q1*
AOCI included in capital (billions of dollars)	0.0	0.0

Risk-Weighted Assets

Supervisory Severely Adverse Scenario

	Actual	Projected
Billions of dollars	Actual 2021:Q4	2024:Q1
Risk-weighted assets (8)	413.0	399.7

Note: estimates may not sum precisely due to rounding

(1) Average assets is the nine-quarter average of total assets.
(2) Noninterest expense includes losses from operational-risk events and other real-estate-owned (OREO) costs.
(3) Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.
(4) Projection of expected credit losses on securities is incorporated in the allowance for credit losses.
(5) Trading and counterparty losses include mark-to-market and credit valuation adjustment (CVA) losses.
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(7) Other comprehensive income is reflected as zero because accumulated other comprehensive income (AOCI) is excluded from capital for Category III firms, including U.S. Bank.
(8) For each quarter, risk-weighted assets are calculated under the Board's standardized approach to risk-based capital in 12 C.F.R. pt. 217, subpart D.

DFAST results – loan losses supervisory severely adverse scenario

Projected loan losses, by type of loan, 2022:Q1-2024:Q1		
Supervisory Severely Adverse Scenario		
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(1) Average loan balances used to calculate portfolio loss rates exclude loans held for sale, loans held for investment under the fair-value option, and Paycheck Protection Program loans and are calculated over nine quarters.
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Common Equity Tier 1 (CET1) capital ratio – waterfall supervisory severely adverse scenario

Key Drivers

- Higher provision expense driven by credit losses is partially offset by an increase in pre-provision net revenue and a favorable tax impact
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