

U.S. Bank National Association

**Annual Company-Run Stress Test
Disclosure**

June 2016



Quantitative Disclosure

U.S. Bank National Association (the “Bank”) is U.S. Bancorp’s (the “Company”) principal banking subsidiary, with total assets exceeding 98% of the Company’s total consolidated assets as of December 31, 2015. 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 revenue and expense, including taxes, 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 (“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 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 in accordance with the expectations and principles set forth in the Office of the Comptroller of the Currency’s publication, “Supervisory Guidance on Stress Testing for Banking Organizations with More Than \$10 Billion in Total Consolidated Assets.”

CCAR 2016
U.S. Bank National Association Disclosure

Dodd-Frank Act Stress Testing Results 2016
Projected stressed capital ratios, risk-weighted assets, losses, revenues, net income before taxes, and loan losses

Supervisory-defined severely adverse scenario

U.S. Bancorp

Capital ratios, actual 2015:Q4 and projected 2016:Q1-2018:Q1			
Percent			
Regulatory ratio	Actual 2015:Q4	Projected stressed capital ratios ¹	
		Ending	Minimum
Common equity tier 1 capital ratio	10.0%	10.8%	10.2%
Tier 1 capital ratio	10.1%	10.8%	10.2%
Total capital ratio	12.2%	13.3%	12.5%
Tier 1 leverage ratio	8.5%	9.1%	8.6%

¹ The capital ratios are calculated using capital action assumptions provided within the Dodd-Frank Act stress testing rule. See 12 CFR 252.56(b). These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. The minimum capital ratio presented is for the period 2016:Q1 to 2018:Q1.

Risk-weighted assets, actual 2015:Q4 and projected 2018:Q1		
Billions of dollars		
Item	Actual 2015:Q4	Projected 2018:Q1
Risk-weighted assets ¹	336.9	322.7

¹ For each quarter, risk-weighted assets are calculated under the Board's standardized capital risk-based approach in 12 CFR part 217, subpart D.

Projected loan losses, by type of loan, 2016:Q1-2018:Q1		
Loan type	Billions of dollars	Portfolio loss rates (percent) ¹
Loan losses	12.0	4.6%
First-lien mortgages, domestic	1.3	2.2%
Junior liens and HELOCs, domestic	0.5	2.9%
Commercial and industrial ²	2.5	3.6%
Commercial real estate, domestic	2.2	5.9%
Credit cards	3.7	15.1%
Other consumer ³	1.0	3.1%
Other loans ⁴	0.9	3.8%

¹ Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option, 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.

Note: Estimates may not sum precisely due to rounding.

Projected losses, revenue, and net income before taxes through 2018:Q1		
Item	Billions of dollars	Percent of average assets ¹
Pre-provision net revenue ²	16.3	4.0%
Other revenue ³	(0.0)	
less		
Provisions	15.2	
Realized losses/gains on securities (AFS/HTM)	0.1	
Trading and counterparty losses ⁴	-	
Other losses/gains ⁵	0.2	
equals		
Net income before taxes	0.8	0.2%
Memo items		
Other comprehensive income ⁶	(0.2)	
Other effects on capital	Actual 2015:Q4	2018:Q1
AOCI included in capital (billions of dollars) ⁷	(0.3)	(0.9)

¹ Average assets is the nine-quarter average of total assets.

² Pre-provision net revenue includes losses from operational-risk events, mortgage repurchase expenses, 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 Trading and counterparty losses include mark-to-market and credit valuation adjustments (CVA) losses and losses arising from the counterparty default scenario component applied to derivatives, securities lending, and repurchase agreement activities.

⁵ 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.

⁶ Other comprehensive income (OCI) is only calculated for advanced approaches BHCs, and other BHCs that opt into advanced approaches treatment of AOCI.

⁷ Certain aspects of AOCI are subject to transition arrangements for inclusion in projected regulatory capital. The transition arrangements are 40 percent included in projected regulatory capital for 2015, 60 percent included in projected regulatory capital for 2016, 80 percent included in projected regulatory capital for 2017, and 100 percent included in projected regulatory capital for 2018. See CFR 217.300(b)(3).

Macroeconomic Scenario

The Bank projects the impact of adverse macroeconomic scenarios (“stressed economic conditions”) on its net income, balance sheet, risk-weighted assets and capital adequacy. The projections disclosed above are based on macroeconomic factors projected by the Office of the Comptroller of the Currency and 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 Bank and its resilience to severely adverse economic conditions. Following is a description of the stressed macroeconomic scenario defined by the Office of the Comptroller of the Currency and used to project the results of the 2016 Dodd-Frank Act Stress Test. The nine-quarter stress time horizon for the 2016 Stress Test is from 1Q2016 through 1Q2018.

Supervisory Severely Adverse Scenario Definition

The severely adverse scenario, as defined by the Office of the Comptroller of the Currency, is characterized by “a severe global recession, accompanied by a period of heightened corporate financial stress and negative yields for short-term U.S. Treasury securities.”¹ Principal economic factors that drive the scenario are defined as follows:

- Unemployment peaks at 10.0 percent in 3Q2017, a 5.0 percentage point increase from the beginning of the stress scenario.
- Real Gross Domestic Product (“GDP”) declines 7.5 percent by the end of 2Q2016, with declines occurring for 5 consecutive quarters.
- Equity prices decline approximately 51 percent at the trough.
- Housing prices decline roughly 25 percent throughout the scenario time horizon.
- Commercial real estate (“CRE”) prices decline approximately 31 percent at the trough.
- Short-term interest rates move into negative territory and remain negative through the scenario horizon, for example:
 - Federal Funds Target rate turns negative in 2Q2016, declines to -0.40 percent in 3Q2016 and remains at this level through the scenario time horizon.
 - 1-month LIBOR declines to -0.35 percent by 3Q2017 and remains at this level through the scenario time horizon.
- The 2-year Treasury rate declines to -0.37 percent in 3Q2016, then begins to increase slightly each quarter to -0.03 percent in 1Q2018.
- Long-term 10-year Treasury rates decline to 0.20 percent early in the scenario and gradually increase by approximately 1.0 percent through the scenario time horizon.

¹ Defined by the Board of Governors of the Federal Reserve System in the “2016 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule”, published on January 28, 2016. Assumptions for this scenario were published by the Office of the Comptroller of the Currency on January 28, 2016.

- The Freddie Mac 30-year Mortgage rate begins the stress period in 1Q2016 at 3.20 percent reaches 4.10 percent in 4Q2016 and remains at this level through 1Q2018.

Please refer to the “2016 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule” published by the Federal Reserve on January 28, 2016 for more information regarding the supervisory severely adverse scenario.

The Company administers the stressed macroeconomic scenarios through the Company’s Economic Scenario Committee (“ESC”), which consists of executive officers and subject matter experts. The executive officers who are part of the ESC include the President and Chief Operating Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Credit Officer, the Treasurer, the Executive Vice President of Strategy and Corporate Affairs and the Senior Vice President and Director of Business Line Reporting and Planning and Stress Testing. Subject matter experts include the Company’s Chief Economist, Chief Operational Risk Officer, and the heads of Capital Planning, Interest Rate Risk Management, Risk Management Framework and Credit Risk Management.

Through the ESC, the Company defines the macroeconomic indicators most relevant to the Company’s business activities, including factors not provided in the Federal Reserve’s macroeconomic scenarios. For relevant drivers that are not provided by the Federal Reserve, the Company forecasts values based on historical correlations to Federal Reserve-defined macroeconomic factors observed in recent recessionary periods. In addition to Unemployment, GDP, Housing Prices and CRE Property Prices, other relevant macroeconomic factors projected by the Company may include, but are not limited to, Weekly Initial Unemployment Claims, Consumer Bankruptcy Filings, Personal Consumption Expenditures (“PCE”), the S&P 500 Index (“SPX”) and the 1-month LIBOR rate.

These factors reflect drivers of economic activity (Real GDP growth, PCE and unemployment factors), equity values (SPX), the value of primary collateral pools (Housing Price Index and CRE Price Index), the consumer bankruptcy climate (Consumer Bankruptcy Filings) and interest rates. These variables also are 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 maintains a risk management framework that establishes the necessary infrastructure to identify, measure and assess risks given the Company’s organizational structure, business activities and size and complexity of operations. The Bank projects the impact of material risks under both expected and stressed conditions to its on-balance sheet 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 reputational. The Bank 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 Bank's businesses.

Credit risk is the risk of not collecting the interest and/or 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 the Bank's credit losses. Principal drivers of higher credit losses are increases in unemployment, declines in GDP, declines in the SPX and declines in home and CRE values.

Losses are forecast separately for each major portfolio segment. The major portfolio segments include corporate exposures managed on an individual basis, small business loans and lines of credit, commercial construction loans, commercial mortgages, residential mortgages, home equity loans and lines of credit, consumer credit cards, auto loans, auto leases and other retail exposures.

Interest rate risk is the potential reduction of net interest income or market valuations as a result of changes in interest rates. The Bank's net interest income is affected by market rates of interest, which in turn are affected by prevailing economic conditions, by the fiscal and monetary policies of the federal government and by the policies of various regulatory agencies. The stressed macroeconomic scenario includes assumptions about key interest rates. The Bank'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 ("MSRs") and their impact on the Bank's net income and capital positions.

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, MSRs and derivatives that are accounted for on a fair value basis. The Bank considers the impact of these risks in its projections under the stressed economic conditions.

Liquidity risk is the possible inability to fund obligations or new business at a reasonable cost in a timely manner. The Bank's liquidity is essential for the operation of its business. Market conditions and other events could negatively affect the Company's access to funds or its borrowing costs. The Bank'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.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss resulting from breaches in data security. Operational risk can also include failures by third parties with which the Company does business.

Compliance risk is the risk of loss arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures or ethical standards, potentially exposing the Company to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk also arises in situations where the laws or rules governing certain Company products or activities of the Company's customers may be ambiguous or untested. The Company's stress testing process estimates and quantifies the effect of stressed economic conditions on its operational losses, which include losses related to non-compliance, and their effect on the Bank's net income and capital positions.

Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. Reputational 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 servicing existing relationships. The Bank considers the impact of these risks in its projections under the stressed economic conditions.

Methodologies Used in the Stress Test

Net Income

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

Capital Position

In assessing its capital position, the Bank incorporates the net income resulting from the quantification of the effects of the stressed economic conditions on its business activities into its common equity roll-forward. The Bank also incorporates the capital actions prescribed in the stress test regulation. The Bank calculates its adjusted common equity by applying regulatory adjustments to its common equity. The Bank assesses resulting changes in those items that are either included on a limited basis or completely deducted from regulatory capital. The Bank also adjusts the level of its goodwill and intangibles deducted from capital to reflect amortization and impairment, if any. Additionally, the Bank analyzes the effects of the stressed economic conditions on its net deferred tax asset position, MSRs and significant and non-significant equity investments to determine the appropriate level of deductions from regulatory capital.

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

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 Bank reporting unit.

Global Market Shock

The Company is not subject to the global financial market shock. The Bank does, however, consider the impact of the stressed economic conditions on its trading assets and the outcome is included in the Bank's pre-provision net revenue forecast.

Pre-Provision Net Revenue: The projections under the stressed economic conditions are produced for:

- the Bank's balance sheet and related net interest income;
- the Bank'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 Bank's MSRs and other mortgage production fees, losses related to the Bank's trading portfolio and the stressed outcome of other product fee categories, including the Bank's payment services, retail services, trust and investment services, other commercial product fees, and other fees; and
- the impact on the Bank's expenses, which includes anticipated operational loss events that could be expected in stressed 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 statistical relationships with macroeconomic factors have been identified. When significant statistical relationships with 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 considers, 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 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 predicts that changes in consumer behavior in stressed economic conditions will be similar to the 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 assumptions or other factors not captured by the models or tools. These adjustments are meant to produce higher levels of financial stress in stressed economic conditions and also address risks that may not be predicted by existing modeling approaches.

Balance Sheet and Net Interest Income:

Balance sheet outcomes are projected for loans, loans held for sale, investment securities, other assets, deposits, wholesale borrowings, equity and other liabilities.

Corporate loans, commercial mortgages, construction loans, commercial leases, retail leases, installment loans, residential first liens, home equity loans and lines, residential mortgage and retail and commercial credit card balance projections are based on regression models. These modeled balances represent the majority of the Bank'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 run-off and stressed economic conditions.

Non interest bearing deposits, interest bearing non-maturity deposits and domestic time deposits balances are also projected based on regression models. These modeled balances represent the majority of the Bank's total deposit balances. Net funding levels are projected based on the outcome of the simulation modeling results of all other balance sheet items.

The Supervisory-defined stressed macroeconomic assumptions result in a general contraction of business activity, which is reflected in the Bank's balance sheet in the form of reduced on- and off-balance sheet exposures. The business activity contraction will impact the Bank's projection of risk-weighted assets associated with balance sheet exposures; however, the macroeconomic assumptions impact the Bank's loan portfolios with differing degrees of severity. This differential will lead to asset mix changes which likely will affect the Bank's weighted average risk-weights from period to period, either emphasizing or offsetting the effect of reduced on- and off-

balance sheet exposures.

As noted above, the scenario included a projection where several short-term rates, such as Federal Funds, LIBOR and Treasury bill rates are assumed to be negative for the majority of the stress time horizon. The Company performed a comprehensive evaluation of the scenario to identify and assess the risks associated with negative rates. Risk identification and assessment efforts included strategic and reputational considerations, financial, legal/contractual implications, systems readiness implications, the potential impact to existing stress test projection models and other operational risks. The results from this evaluation have been incorporated in the Company's projections.

Net interest income is modeled using an interest rate simulation model. The simulation model employs the balance sheet projections that are based on the stressed economic environment and applies the rate forecasts and other key economic indicators as provided in the stressed macroeconomic scenarios. 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 Bank's historical run rate and include adjustments modeled for stressed economic environments.

The Bank also models the wholesale funding cost assumptions for long-term funding instruments to ensure these assumptions properly reflect both the availability and cost in a stressed environment. Short-term borrowing rates are forecast based on historical experience in a recessionary time period.

Fee Income:

The majority of the Bank's fee income is projected using regression modeling in the stress scenario including revenues from Mortgage Banking, Payment Services, Investment Management, Treasury Management (a component of Treasury Services), the majority of Retail and Small Business Lending and Deposits, Investment Banking, Commercial Lending and Sales and Trading. As an example of the macroeconomic factors that drive fee income, the Mortgage Banking model relies primarily on the macroeconomic paths of Weekly Initial Unemployment Claims, the Housing Price Index, 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 which rely on regression modeling with strong correlations to real GDP growth, the Consumer Price Index, Personal Consumption Expenditures and Weekly Initial Unemployment Claims, which are used for predicting fee income in the stressed scenarios. For all modeled fee income categories, regression models are developed by utilizing the macroeconomic factors that make both good business sense and provide results that reflect strong correlations. Model projections are reviewed to ensure results represent the severity of the scenario, and a conservative management overlay may be applied if necessary

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, such as Insurance Services and other small fee categories, where efforts to model the Bank's historical financial performance have not found statistical relationships with macroeconomic variables. These fee revenue categories 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 factors are significant for their respective fee income categories. Management then projects how these factors impact their key business drivers of fee income, which 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 foreclosures, litigation, legal and other mortgage-related foreclosure costs.

While expenses related to legal and other real estate owned are statistically modeled, increases in collections expense are primarily derived using the historical relationship of the expense 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 collection expenses will increase proportionately, by definition. The impact to mortgage-related foreclosure expenses is projected based on the gross delinquency rates developed using the Delinquency and Foreclosure model, which is driven by the Housing Price Index, the Unemployment Rate and Weekly Initial Unemployment Claims. 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.

The Company's operational loss estimates rely on macroeconomic factor models employed to determine statistical relationships with relevant macroeconomic factors, including, among others, real GDP, the unemployment rate and relevant interest rates. Expected loss is obtained by multiplying the modeled expected frequency and the historical average loss severity per event type. Severity estimates incorporate both internal and external loss estimates. For event types where no significant macroeconomic relationships are found to exist, the Company's operational loss projections are based on internal historical loss experience along with scenario analysis leveraging the Company's operational risk scenario workshops conducted by

subject matter experts across the organization. In addition, overlays are applied for those risks deemed material that are not adequately captured in the historical operational loss data set.

Finally, the Company uses a conservative approach when considering the timing of and 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 stress scenarios 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 stressed economic conditions based on several key inputs. These include beginning period balances and portfolio composition, macroeconomic assumptions of the scenario, forecasts of portfolio balances and forecasts of defaults and losses. The Company's loss forecasting models are account-level models that forecast quarterly defaults and net charge-offs. Model risk drivers vary by portfolio and include borrower characteristics and macroeconomic factors. The Company evaluates loss forecasts produced by its primary models by considering results of benchmark models, past portfolio performance, current portfolio composition and expectations of future performance given the scenario's economic assumptions. The provision expense is based on the loss forecasts, portfolio growth and asset quality over the forecast horizon.

The Bank has a diverse mix of loans and leases. Losses are forecast separately by portfolio and incorporate state or regional effects. The major portfolio segments are corporate exposures managed on an individual basis, small business loans and lines of credit, commercial construction loans, commercial mortgages, residential mortgages, home equity loans and lines of credit, consumer credit cards, auto loans, auto leases and other retail exposures.

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

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 the Bank's non-agency mortgage backed securities ("MBS"), corporate securities and municipal securities under stressed economic conditions. For the Bank's 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 changes in Treasury rates, housing prices, and SPX to derive the modeled fair value during the forecast horizon and on an internal credit assessment of the security issuer's financial condition. Based on the results of this assessment, the Company may project other than temporary impairment ("OTTI") at the lowest fair market value modeled during the forecast horizon (less amortized cost). Municipal securities are reviewed based upon credit quality. The Company uses regression modeling that is correlated to changes in the scenario forecast assumptions for Treasury rates, real GDP, and SPX and a forward ratings transition assessment during the forecast horizon. The Bank recognizes OTTI for any municipal security that is projected to transition to a below investment grade internal rating (derived from the application of the rating transition analysis) as the difference between its modeled fair market value and its amortized cost.

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 Bank's tax-advantaged community investments and, to a lesser extent, income from the Bank's tax-exempt investments. The Bank includes estimates of state income taxes in its effective tax rate based on historical income allocation across the states.

The Company evaluates the likelihood of any deferred tax asset being realized considering factors that include whether there is sufficient taxable income in prior periods to support recovery through carryback and the ability of the Bank to realize tax benefits in future periods.

Changes in Capital Positions (Supervisory-defined severely adverse)

The Company estimates that the effect of the stressed economic conditions on the Banks's Basel III capital levels increases the Bank's Common Equity Tier 1 Capital ("CET1") ratio by approximately 80 basis points over the nine-quarter stress period from December 31, 2015 to March 31, 2018 under the Basel III standardized transition rules.

The increase in the CET1 ratio is due to a reduction in the Bank's risk-weighted assets due to a declining balance sheet and the preservation of capital due to the suspension of dividends paid to the Bank's parent company, partially offset by a decline in the unrealized loss on the Bank's defined pension plans.

A central component of the Bank’s approach to capital management in times of financial or economic stress is to enhance its strong capital position and offset the negative effects of the severely adverse economic conditions on its earnings capacity by suspending capital distributions to U.S. Bancorp, its parent company.

To ensure that it is able to provide such a significant level of support to the Bank, the parent company maintains a strong liquidity position that enables it to defer dividends from the Bank over the stress period while meeting all of its financial obligations without the need to resort to the issuance of debt.

Changes in Regulatory Capital Ratios

The Bank’s capital ratios presented below are presented under the Basel III standardized transition rules.

USBNA - Capital Ratios under the Supervisory Severely Adverse Scenario			
Capital Ratio	4Q2015	1Q2018	Change
Common Equity Tier 1 Capital Ratio	10.0	10.8	0.8
Tier 1 Capital Ratio	10.1	10.8	0.7
Total Risk-based Capital Ratio	12.2	13.3	1.1
Tier 1 Leverage Ratio	8.5	9.1	0.6

Common Equity Tier 1 Capital Ratio – Increased by 0.8 percent from 10.0 percent at 4Q2015 to 10.8 percent at 1Q2018

The Bank’s CET1 ratio increased by 80 basis points over the stress horizon. Of this change, 30 basis points is attributed to the increase in the Bank’s CET1 primarily due to net income over the nine-quarters being partially offset by the increase in the unrealized loss on the Bank’s defined pension plans and an increase in Basel III deductions. CET1 is also bolstered by the suspension of dividends paid to U.S. Bancorp during the severely adverse nine-quarter scenario. The Bank’s risk-weighted assets decrease over the stress horizon due to a declining balance sheet which results in an increase to the Bank’s CET1 ratio of 50 basis points.

Tier 1 Capital Ratio – Increased by 0.7 percent from 10.1 percent at 4Q2015 to 10.8 percent at 1Q2018

The Bank’s Tier 1 Capital ratio increased by 70 basis points over the stress horizon, of which 80 basis points is attributed to changes in the level of the Bank’s CET1. This is partially offset by 10 basis points, as a result of the increasing capital security limitations over the transition period.

Total Risk-based Capital Ratio – Increased 1.1 percent from 12.2 percent at 4Q2015 to 13.3 percent at 1Q2018

The Bank's Tier 2 Capital ratio increased by 110 basis points over the stress test period, of which 70 basis points is due to the change in Tier 1 Capital. The additional 40 basis points increase is due to the Bank issuing internal subordinated debt to maintain its Tier 2 capital position in relation to Tier 1 capital.

Tier 1 Leverage Ratio – Increased 0.6 percent from 8.5 percent at 4Q2015 to 9.1 percent at 1Q2018

The increase in the Tier 1 Leverage ratio is principally the result of the impact of the Bank's declining average assets which accounts for 40 basis points of the increase. The additional 20 basis points of increase is due to changes in Tier 1 Capital described above.