



# **USAA Federal Savings Bank**

## **Pillar 3 Regulatory Capital Disclosures**

*For the Quarterly Period Ended June 30, 2024*

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## ***Introduction and Scope of Application***

United Services Automobile Association (USAA) is a membership-based association that, together with its wholly-owned subsidiaries, serves current and former commissioned and non-commissioned United States (U.S.) military officers, enlisted and retired military personnel and their families.

Our mission is to empower our members to achieve financial security through highly competitive products, exceptional service and trusted advice. We seek to be the #1 choice for the military community and their families.

USAA Federal Savings Bank (Bank or FSB) is a full-service retail bank that offers credit cards, consumer loans, residential real estate loans and a range of deposit products. With its home office designated in Arizona and its headquarters located in San Antonio, Texas, the Bank operates primarily by electronic commerce through usaa.com, mobile banking, call centers and direct mail. FSB's primary federal regulator is the Office of the Comptroller of the Currency (OCC). The Bank is also regulated by the Federal Deposit Insurance Corporation (FDIC) and the Consumer Financial Protection Bureau (CFPB).

The following provides a description of certain Bank affiliates:

- USAA is a Texas-based reciprocal inter-insurance exchange founded in 1922 that provides property and casualty insurance products. Through its various subsidiaries, USAA provides financial products and services, including personal lines of insurance, retail banking, investments and retirement products. USAA is subject to supervision by the Board of Governors of the Federal Reserve System.
- USAA Capital Corporation (CapCo) is a direct, wholly-owned subsidiary of USAA organized as a Delaware corporation. In addition to its holding company operations, CapCo serves as a USAA general purpose finance subsidiary. The Bank is a direct, wholly-owned subsidiary of CapCo.
- USAA Residential Real Estate Services, Inc. (RRES) was a licensed real estate broker which provided services for members who were contemplating moving, to facilitate the sale or purchase of a home, through a contractual agreement with a relocation services company. The company is still in existence, however the real estate broker license expired on December 31, 2020. For accounting purposes, RRES is a consolidated subsidiary of the Bank. However, for regulatory capital purposes, RRES is a nonfinancial subsidiary that is required to be deducted from the calculation of the Bank's regulatory capital.

In August 2023, the OCC and State of Nevada approved FSB's applications to merge USAA Savings Bank (USB) into FSB and to amend its charter to designate Arizona as its Home Office. The merger was a statutory merger whereby all of USB's activities, assets, and liabilities were transferred to FSB. As a result of the merger, the USB legal entity ceased to exist and there were no changes in the nature of the operations at FSB. The charter amendment was effective April 1, 2024 and the merger occurred on June 1, 2024.

There are no insurance subsidiaries included in the Bank's consolidated group. There are no subsidiaries with total capital less than the minimum capital requirements.

Restrictions on capital and transfer of funds between affiliates are limited to applicable regulatory requirements. Prior to any transfer, the Bank engages the appropriate regulatory authorities to complete notification and other requirements.

## **Risk Management**

The Bank's Risk Governance Framework (RGF) provides the Bank's strategic foundation for identifying, measuring, assessing, controlling, monitoring and reporting risks in a manner that promotes prudent decision-making, manages risk-reward, and instills accountability for risk in fulfilling the Bank's strategy and USAA's mission. This structure is designed to ensure the ongoing safety and soundness of the Bank is facilitated through management committees that report to FSB Board of Directors (Board).

- The Board is responsible for overseeing the Bank's compliance with safe and sound banking practices, including thorough review of the Bank's business and its financial reporting. The Board sets and reinforces, with executive management, an appropriate "Tone at the Top" that supports a culture of effective challenge and actively oversees the Bank's risk-taking activities and holds Bank management and Enterprise Affiliate Services accountable for adherence to the RGF and applicable Service Level Agreements.
- The Board's Risk Committee (BRC) has oversight responsibility of the Bank-wide risk management and governance framework, including the RGF and the strategies, policies, procedures, processes, governance structures, and systems established by management to identify, assess, measure, and manage the FSB's Principal Risks. This committee reports its activities and decisions to the Board.
- The Bank Risk Management Committee (BRMC) has been established by Bank senior management to provide a forum in which Bank Second Line of Defense

(SLOD) oversees the Bank's risk-taking activities and assesses the Bank's material risks. The Asset/Liability Management Committee (ALCO) has been established by Bank senior management to direct the overall balance sheet strategies, approve the terms of new asset and liability products, as well as changes in existing products, to control cash flow / liquidity risk and interest rate risk, ensure compliance with the qualified thrift lender requirement, and to ensure Capital Adequacy. The BRMC and ALCO each report to the Bank President and each can escalate to the Bank President or the Bank Board (or committee thereof) as appropriate. The Bank Credit Risk Management Committee (BCRMC) and the Bank Market Risk Committee (BMRC) are subcommittees of the BRMC responsible for monitoring credit risk and market risk, respectively.

Risk Appetite defines the amount and type of risk the Bank is willing to assume to achieve the organization's strategic objectives and business plan, consistent with applicable capital, liquidity, and other regulatory requirements. As set forth in the RGF, the Bank's Risk Appetite is integral in guiding management to make prudent decisions in support of mission fulfillment. Risks taken by the Bank are expected to remain within Risk Appetite, which is approved annually by the Bank Board's Risk Committee. The Bank's Chief Risk Officer independently monitors risks through a comprehensive system of appetites and triggers. Breaches of Risk Appetite and trigger limits are escalated through the Bank's Risk Appetite governance structure.

### **Basel Capital Framework**

In 2013, the OCC made changes to the way banks are required to compute and manage regulatory capital and added certain financial disclosure requirements. The effective date of these changes as they apply to the Bank was January 1, 2015, though certain requirements were phased in over several years (referred to within as "the Basel III Standardized Approach Requirements"). The Bank is compliant with the fully phased-in 2019 capital requirements pursuant to the final regulatory capital rules; the Bank implemented the simplifications to the capital rule in Q2 2020 and the interim final rule pertaining to the eligible retained income is reflected in Exhibit 7 of this document.

These changes are in large part aligned with the Basel capital framework, which consists of the three "pillars" described below.

- Pillar 1: Minimum Capital Requirements - This pillar provides a framework for calculating regulatory capital and is segmented by credit risk, operational risk and market risk.

- Pillar 2: Supervisory Review - This pillar describes how the regulatory agencies should review a bank's operations to ensure that it will continue to be financially strong should adverse circumstances arise.
- Pillar 3: Risk Disclosure and Market Discipline - This pillar requires a bank to make public disclosures that describe its capital structure and major risks.

The Bank's Pillar 3 Regulatory Disclosures document satisfies the OCC's risk disclosure and market discipline requirements.

## Capital Structure

### Regulatory Capital Instruments

The Bank's regulatory capital instruments consist of common stock and noncumulative perpetual preferred stock, which are solely owned by CapCo. The Bank's current regulatory capital instruments are provided below.

#### Exhibit 1: Regulatory Capital Instruments

Information as of June 30, 2024

| Capital Instrument  | Callable           | Previous Declared Rate | Shares Authorized; Issued and Outstanding |
|---|--------------------|------------------------|---|
| Adjustable Non-Cumulative Perpetual Preferred Series E Stock, \$100 Par Value | Yes <sup>(a)</sup> | 4.40%                  | 20,000,000;<br>2,750,000<br>10,000,000;   |
| Common Stock, \$90 Par Value  | No                 | N/A                    | 200,000                                   |

(a) Shares are callable at the Bank's option for cash after five years, in whole or in part, at par value plus accrued but unpaid dividends on Dec. 15 of each year, or on such other date as may be agreed to by the Bank and the holders of all the shares of Series E. The preferred stock has a liquidation value equal to its redemption value and has preference over the common stock with respect to dividends and liquidation rights. Consistent with 12 CFR 3.20, the issuer and holder understand that the preferred stock is not to be called within the first five years of its issuance and have not been called as of 6/30/2024.

### Regulatory Capital

The Bank is subject to minimum regulatory capital requirements that are prescribed by the OCC. These requirements include maintaining adequate capital levels across several regulatory capital categories, which include common equity Tier 1 (CET1), Tier 1, Total risk-based capital (Total RBC) and leverage. CET1, Tier 1 and Total RBC are evaluated in relation to risk-weighted assets (RWA), which are calculated using categories across the Bank's balance sheet and OCC prescribed risk-weighting percentages. Leverage is evaluated by comparing Tier 1 capital to average total assets.

CET1 capital includes retained earnings, common stock and paid-in capital. Tier 1 capital includes CET1 as well as preferred stock. Total RBC includes Tier 1 capital and the allowance for credit losses (ACL) up to 1.25% of total RWA. The Bank adopted the Current Expected Credit Losses (CECL) standard as of January 1, 2023, which required a cumulative adjustment to retained earnings. At adoption, the impact was a reduction in retained earnings of \$504M after-tax, however, the Bank elected to phase in regulatory capital impacts over the next three years, pursuant to the CECL Transition Rule. Under



the CECL Transition Rule, a banking institution could elect to phase in the estimated cumulative impact of adopting CECL on its regulatory capital from January 1, 2023 through January 1, 2026. For the ongoing impact of CECL phase-in, the Federal Banking Agencies used a uniform “scaling factor” of 25% as an approximation of the increase in the allowance under the CECL standard compared to the prior incurred loss methodology.

All regulatory capital measures require deduction of intangible assets and certain other items. The regulatory capital ratios are computed as follows:

- CET1: CET1 capital divided by RWA
- Tier 1: Tier 1 capital divided by RWA
- Total RBC: Total RBC divided by RWA
- Leverage: Tier 1 capital divided by adjusted average total assets

The Bank’s capital adequacy management program ensures that appropriate capital levels are held in consideration of its overall size, complexity and Risk Profile. The Bank is required to maintain regulatory prescribed minimum capital ratios, which are provided in the following exhibit along with a summary of the Bank’s regulatory capital amounts, RWA, average total assets and capital ratios.

## Exhibit 2: Capital Ratios

All dollars in millions; information as of June 30, 2024

| Regulatory Capital and Assets       | Basel III<br>Standardized<br>Approach Dollars |
|-------------------------------------|---|
| Common Equity Tier 1 Capital        | \$ 9,185                                      |
| Tier 1 Capital                      | 9,460   |
| Total Capital                       | 10,185  |
| Risk-Weighted Assets                | 57,533  |
| Total Assets for the Leverage Ratio | 111,887                                       |

| Capital Ratios       | Regulatory<br>Well-Capitalized<br>Levels | Regulatory<br>Minimum<br>Capital Levels | Basel III<br>Standardized<br>Approach<br>Percentage |
|----------------------|--|---|---|
| Common Equity Tier 1 | 6.5%                                     | 4.5%                                    | 16.0%   |
| Tier 1               | 8.0%                                     | 6.0%                                    | 16.4%   |
| Total Risk-Based     | 10.0%                                    | 8.0%                                    | 17.7%   |
| Leverage             | 5.0%                                     | 4.0%                                    | 8.5%  |

## Components of Capital

The following exhibit presents a reconciliation of the Bank's total equity to the components of regulatory capital.

### Exhibit 3: Components of Regulatory Capital

All dollars in millions; information as of June 30, 2024

| Components of Regulatory Capital  | Basel III<br>Standardized<br>Approach Dollars |
|---|---|
| Common Stock  | \$ 18   |
| Contributed Capital   | 3,239   |
| Retained Earnings   | 5,941   |
| Accumulated Other Comprehensive Income (Loss)   | (5,504)                                       |
| Common Equity Tier 1 Capital Before Adjustments and Deductions  | 3,694   |
| Adjustments for:  |   |
| Less: Intangible Assets   | —   |
| Less: Deferred Tax Assets that Arise from Net Operating Loss and Tax Credit Carry Forwards                  | 10  |
| Less: Accumulated Other Comprehensive Income (Loss) – Available for Sale Securities                         | (1,813)                                       |
| Less: Accumulated Other Comprehensive Income (Loss) – Cash Flow Hedges                                      | 9   |
| Less: Accumulated Other Comprehensive Income (Loss) – Held to Maturity Securities that are included in AOCI | (3,700)                                       |
| Less: Subsidiaries Required to Be Deducted  | 3   |
| Less: 25% Common Equity Tier 1 Capital Threshold Deductions   | —   |
| Less: Other   | —   |
| Common Equity Tier 1 Capital  | 9,185   |
| Plus: Preferred Stock   | 275   |
| Plus: Other   | —   |
| Tier 1 Capital  | 9,460   |
| Plus: Allowance for Loan and Lease Losses Includable as Tier 2 Capital                                      | 725   |
| Plus: Other   | —   |
| Total Capital   | \$ 10,185                                     |

Table may not foot due to rounding

## Capital Adequacy

The Bank's capital adequacy management program aligns to the Bank's risk management practices which is carried out by the ALCO. To assess the Bank's capital adequacy, the ALCO utilizes several tools to actively monitor trends, review scenario and stress test analytics, and benchmark the metrics provided by this information in relation to internal and regulatory thresholds. These tools enable the Bank's management to maintain an effective monitoring program and provide important inputs to the Bank's planning efforts.

The ALCO's monitoring activities include the ongoing review of regulatory capital ratios, described in the section titled, "Regulatory Capital." The results for the most recent quarter-end are provided in the following exhibits.

### Exhibit 4: Risk-Weighted Assets

All dollars in millions; information as of June 30, 2024

| Risk-Weighted Assets   | Dollars          |
|--|------------------|
| Exposures to Sovereign Entities  | \$ —             |
| Exposures to Certain Supranational Entities  | —                |
| Exposures to Depository Institutions   | 1,279            |
| Exposures to Public Sector Entities  | 4                |
| Corporate Exposures  | —                |
| Residential Mortgage Exposures   | 1,737            |
| Statutory Multifamily Mortgages and Pre-sold Construction Loans                                  | —                |
| High Volatility Commercial Real Estate Loans   | —                |
| Past Due Loans   | 595              |
| Cleared Transactions   | —                |
| Default Fund Contributions   | —                |
| Unsettled Transactions   | —                |
| Securitization Exposures   | —                |
| Equity Exposures   | 66               |
| Other Assets <sup>(a)</sup>  | 54,350           |
| <b>Total Risk-Weighted Assets Before Deduction of Excess Allowance for Loan and Lease Losses</b> | <b>58,033</b>    |
| Less: Excess Allowance for Loan and Lease Losses   | 500              |
| <b>Total Standardized Risk-Weighted Assets</b>   | <b>\$ 57,533</b> |

Table may not foot due to rounding

<sup>(a)</sup> Comprises primarily consumer and credit card loans

The following exhibit presents a summary of regulatory capital ratios.

### Exhibit 5: Capital Ratios

Information as of June 30, 2024

| Basel III Standardized Approach Capital Ratios | Ratio  |
|--|--------|
| Common Equity Tier 1                           | 16.0 % |
| Tier 1   | 16.4 % |
| Total Risk-Based Capital                       | 17.7 % |
| Leverage                                       | 8.5 %  |

### Capital Conservation Buffer

The OCC's regulatory capital buffers were fully phased in as of January 1, 2019. The Bank is required to maintain a capital conservation buffer (CCB) equal to at least 2.5% of total RWA above the regulatory minimum for the most constraining capital ratio (i.e., CET1, Tier 1 or Total RBC). In addition, the OCC requires disclosures of "eligible retained income under the CCB framework," which is defined as the greater of 1) the Bank's net income, calculated in accordance with the instructions to the Call Report, for the four calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income; and 2) the average of the national bank's or federal savings association's net income, calculated in accordance with the instructions to the Call Report, for the four calendar quarters preceding the current calendar quarter. The Bank's CCB and eligible retained income are provided in the following exhibits.

### Exhibit 6: Capital Conservation Buffer

Information as of June 30, 2024

| Capital Conservation Buffer                  | Ratio  |
|--|--------|
| Total Risk-Based Capital Ratio               | 17.7 % |
| Less: Minimum Total Risk-Based Capital Ratio | 8.0 %  |
| Capital Conservation Buffer                  | 9.7 %  |
| Required Capital Conservation Buffer         | 2.5 %  |

Table may not foot due to rounding

**Exhibit 7: Eligible Retained Income Under Capital Conservation Buffer Framework**

All dollars in millions; information as of June 30, 2024

| <b>Eligible Retained Income Under Capital Conservation Buffer Framework</b> | <b>Dollars</b> |
|---|----------------|
| Net Loss Over Four Previous Quarters  | \$ (256)       |
| Less: Dividends Paid Over Four Previous Quarters                            | —              |
| Total Eligible Retained Loss Over Four Previous Quarters (1)                | (256)          |
| Average Net Loss Over Four Previous Quarters (2)                            | (64)           |
| <b>Total Eligible Retained Loss   Greater of (1) or (2)</b>                 | <b>\$ (64)</b> |

Table may not foot due to rounding

The Bank is not subject to any limitations on distributions and discretionary bonus payments given a CCB in excess of 2.5%. However, the maximum amount of distributions the Bank can make is a function of its eligible retained income, which is currently negative.

***Credit Risk: General Disclosures***

The Bank provides credit card, auto, residential mortgage and other consumer loans to its members, which creates Credit Risk. Deposit products offered by the Bank also create credit risk through member account overdrafts. Credit Risk represents the potential for the Bank to incur a financial loss if its members become unable or unwilling to repay their loans. To effectively manage Credit Risk, the Board governs the Bank's lending programs through lending policies and ongoing monitoring activities through the BCRMC. The BCRMC enables the Bank to comply with lending policies by establishing and monitoring lending guidelines and actively monitoring Credit Risk exposures.

- **Nonaccrual and Charge-Off Methodologies:** Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The type of loan and status will guide management through established criteria to determine when a loan qualifies for nonaccrual treatment or return to accrual. When a loan is placed on nonaccrual status, previously accrued but uncollected interest is reversed. Payments received on loans in nonaccrual status are applied first to the principal balance, with excess payments applied to outstanding interest and fees.

Return to accrual status of a nonaccrual loan occurs based on established criteria. The loan status is monitored to determine if certain required conditions are met to restore it to accrual status, including criteria required for: 1) bankruptcy accounts, 2) deceased accounts, 3) workout accounts and 4) greater than 90 days delinquent

accounts. An account may be returned to accrual status when 1) no further nonaccrual conditions apply for the account, 2) certain workout program completion has been fulfilled and 3) the borrower has resumed paying the full amount of the scheduled contractual interest, and principal payments to bring the loan fully current, and a sustained period of repayment performance exists (a minimum of 6 months) by the borrower to bring the loan current in accordance with the contractual terms involving payments of cash or cash equivalents.

Credit cards, lines of credit and mortgage loans are charged off on the last business day of the month after the account is 180 days past due. Auto and other consumer loans are charged off at 120 days past due. Deposit accounts are charged off when overdrawn for at least 55 consecutive days. Consumer loans (secured and unsecured), home equity lines of credit and credit cards in bankruptcy are charged off within 50 days from the bankruptcy filing date. Credit cards, lines of credit and secured loans of deceased individuals are charged off by the end of the month once the reported death is reflected by the credit rating organizations. Residential mortgages are subject to impairment accounting based on the estimated fair value of the underlying collateral, less estimated selling costs. Residential mortgages and other secured loans are secured debt with collateral and, accordingly, may be subject to foreclosure or liquidation.

- Allowance Methodology: The purpose of the Allowance for Credit Losses (ACL) is to maintain a reserve sufficient to cover total credit losses expected to be realized from assets held by FSB as of the estimation date. The ACL is maintained at a level that is appropriate to absorb expected losses from assets held by FSB, and is evaluated quarterly. Additions and reductions to the ACL through periodic provisions or benefits are recorded in Provision for Credit Losses in the Consolidated Statements of Comprehensive Income. FSB adopted the CECL Accounting Standard with an effective date of January 1, 2023. CECL is a measurement methodology that estimates Expected Credit Loss (ECL) of a financial asset utilizing forward-looking information. The ACL for on-balance sheet assets is determined using a factor-based credit loss measurement approach based on the estimate of ECL on the unpaid principal balance component of the Amortized Cost Basis (ACB) of a loan instrument. CECL does not require an entity to measure ECL on obligations to extend credit which are unconditionally cancellable for off-balance sheet commitments. FSB has determined that all credit card products are unconditionally cancellable at the option of FSB in accordance with the guidance in the Standard. As such, FSB estimates ECL on only the funded credit card balance at each reporting date. HELOCs are not unconditionally cancellable due to regulatory conditions in the Truth in Lending Act (TILA). As such, ECL on the funded balance and unfunded available line is estimated.

The ECL on the funded balance is included as part of the ACL and the ECL on the unfunded portion is held in a Liability for Unfunded Commitments (LUC) account.

The determinations of the ACL amounts are based on a combination of quantitative and qualitative calculation methods and consider all available information relevant to assessing collectability. This may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. FSB will consider and may qualitatively adjust for conditions, changes and trends in loan portfolios that may not be captured in the quantitative modeled results. These qualitative adjustments represent management's judgment of the imprecision and risks inherent in the processes and assumptions used in establishing the ACL, including, but not limited to, economic uncertainty, portfolio composition and industry comparisons.

- **Credit Exposures by Type, Industry/Counterparty and Geographic Distribution:** The Bank's membership is geographically dispersed throughout the U.S. and the Bank's underwriting and risk management practices are not differentiated by region. The Bank employs sound underwriting standards that meet or exceed all state and federal regulations. Other concentrations (e.g., subprime exposure, credit bands, product concentration risk, geographical economic health, membership eligibility exposure) are actively managed and monitored by senior management and the BCRMC.

The following exhibits provide the Bank's total loan exposures by regulatory reporting category, industry/counterparty and geographic distribution.

### Exhibit 8: Credit Exposures by Type, Industry/Counterparty and Geographic Distribution<sup>(a)</sup>

All dollars in millions; information as of June 30, 2024

| <b>Credit Exposures by Type, Industry and Counterparty</b>         | <b>Dollars</b>    |
|--|-------------------|
| Residential Real Estate  | \$ 2,654          |
| Commercial Real Estate   | —                 |
| Consumer   | 41,628            |
| Other  | 22                |
| <b>Sub-Total Loan Exposures - Industry: Retail Credit</b>          | <b>44,304</b>     |
| Off-Balance Sheet Loan Commitments: Retail Credit <sup>(b)</sup>   | 60,070            |
| Due From Depository Institutions - Industry: Financial, Government | 12,527            |
| Debt Securities - Industry: Government, Other                      | 52,539            |
| Over-The-Counter (OTC) Derivatives - Industry: Financial           | 11                |
| <b>Total Credit Exposures</b>                                      | <b>\$ 169,451</b> |

Table may not foot due to rounding

(a) All geographic distribution is within the U.S.

(b) Primarily comprised of unused commitments on retail credit card lines

The following exhibit provides the Bank's credit exposures by regulatory reporting category on an average basis.

### Exhibit 9: Average Credit Exposures by Type

All dollars in millions; information for the three months ended June 30, 2024

| Average Credit Exposure by Type                   | Dollars    |
|---|------------|
| Residential Real Estate                           | \$ 2,630   |
| Commercial Real Estate                            | —          |
| Consumer  | 41,362     |
| Other   | 28         |
| Sub-Total: Loan Exposures                         | 44,020     |
| Off-Balance Sheet Loan Commitments <sup>(a)</sup> | 60,228     |
| Due from Depository Institutions                  | 9,779      |
| Debt Securities                                   | 51,596     |
| OTC Derivatives                                   | 14         |
| Total All Credit Exposures                        | \$ 165,637 |

Table may not foot due to rounding

(a) Primarily comprised of unused commitments on retail credit card lines

The following exhibit provides the Bank's credit exposures by type with the associated remaining contractual maturity.

### Exhibit 10: Credit Exposures by Type and Remaining Contractual Maturity<sup>(a)(b)</sup>

All dollars in millions; information as of June 30, 2024

| Credit Exposures by Type and Remaining Contractual Maturity | Up to 1 Year | 1 to 5 Years | Over 5 Years | Total      |
|---|--------------|--------------|--------------|------------|
| Residential Real Estate                                     | \$ 1,195     | \$ 49        | \$ 1,245     | \$ 2,489   |
| Commercial Real Estate                                      | —            | —            | —            | —          |
| Consumer  | 16,128       | 15,705       | 9,508        | 41,340     |
| Other   | 22           | —            | —            | 22         |
| Total Loan Exposures  | 17,345       | 15,754       | 10,753       | 43,852     |
| Off-Balance Sheet Loan Commitments <sup>(c)</sup>           | 60,070       | —            | —            | 60,070     |
| Due from Depository Institutions                            | 12,527       | —            | —            | 12,527     |
| Debt Securities   | 1,442        | 3,388        | 47,710       | 52,539     |
| OTC Derivatives   | 11           | —            | —            | 11         |
| Total Credit Exposures                                      | \$ 91,395    | \$ 19,142    | \$ 58,462    | \$ 168,999 |

Table may not foot due to rounding

(a) Remaining maturity for installment loans and next repricing date for revolving lines of credit

(b) Excludes loans in nonaccrual status

(c) Primarily comprised of unused commitments on retail credit card lines



The following exhibit provides the Bank's impaired total loan exposures by regulatory reporting category and geographic distribution.

### Exhibit 11: Impaired Loans by Type and Geographic Distribution<sup>(a)</sup>

All dollars in millions; information as of June 30, 2024

| Impaired Loans by Type      | Modifications under ASU 2022-02 (Performing) |               | Past Due 30 Through 89 Days and Still |               | Total      |
|-----------------------------|--|---------------|---------------------------------------|---------------|------------|
|                             | Accruing                                     | Nonaccrual    | Accruing                              | Nonaccrual    |            |
| Residential Real Estate     | \$ 16  | \$ 16         | \$ 163                                | \$ 195        | 195        |
| Commercial Real Estate      | —  | —             | —                                     | —             | —          |
| Consumer                    | 22   | 242           | 287                                   | 551           | 551        |
| Other                       | —  | 7             | —                                     | 7             | 7          |
| <b>Total Impaired Loans</b> | <b>\$ 38</b>                                 | <b>\$ 265</b> | <b>\$ 450</b>                         | <b>\$ 753</b> | <b>753</b> |

Table may not foot due to rounding

(a) All geographic distribution is within the U.S.

The following exhibit provides the Bank's ACL by category.

### Exhibit 12: Allowance for Credit Losses<sup>(a)</sup>

All dollars in millions; information as of June 30, 2024

| Allowance for Credit Losses | Dollars         |
|-----------------------------|-----------------|
| Residential Real Estate     | \$ 7            |
| Commercial Real Estate      | —               |
| Consumer                    | 1,536           |
| Other                       | 10              |
| <b>Total ACL</b>            | <b>\$ 1,553</b> |

Table may not foot due to rounding

(a) It is not the Bank's practice to allocate ACL by geographic region

The following exhibit provides the Bank's gross charge-offs by regulatory reporting category.

### Exhibit 13: Gross Charge-Offs

All dollars in millions; information is year to date as of June 30, 2024

| Gross Charge-Offs       | Dollars |
|-------------------------|---------|
| Residential Real Estate | \$ 7    |
| Commercial Real Estate  | —       |
| Consumer                | 477     |
| Other                   | 29      |
| Total                   | \$ 513  |

Table may not foot due to rounding

The following exhibit provides a reconciliation of the changes in the Bank's ACL.

### Exhibit 14: Reconciliation of Changes in Allowance for Credit Losses

All dollars in millions; information year to date as of June 30, 2024

| Reconciliation of Changes in Allowance for Credit Losses                          | Dollars  |
|---|----------|
| Balance at Beginning of Year  | \$ 1,549 |
| Recoveries  | 95       |
| Less: Charge-Offs   | 513      |
| Less: Write-Downs Arising from Transfers of Loans to Held-for-Sale                | —        |
| Provision for Credit Losses   | 422      |
| Adjustments   | —        |
| Balance at End of Current Period  | \$ 1,553 |
| Uncollectible Retail Credit Card Fees and Finance Charges Reversed Against Income | 32       |

Table may not foot due to rounding

### Counterparty Credit Risk-Related Exposures: General Disclosures

To manage interest rate risk, the Bank engages in hedging activities. These hedging activities utilize over-the-counter (OTC) and centrally cleared derivative contracts. The goal of these hedging activities is to mitigate the interest rate risk associated with providing these products and to protect the Bank's financial security.

The Bank meets member home financing needs through its residential mortgage loan product suite. When mortgage loans are sold to the Government-Sponsored Enterprise (GSEs), the mortgage servicing rights (MSRs) are sold to the market via the GSE-sponsored marketplace. MSRs represent the net present value of future cash flows for performing specified mortgage servicing activities. Servicing activities include collecting

principal, interest and escrow payments from borrowers, making tax and insurance payments on behalf of borrowers, monitoring delinquencies and executing foreclosure proceedings.

### **Derivative Activities**

OTC derivative activities are described below, while centrally cleared activities are not described further as these activities generate exposure to the clearing house, but do not create direct exposure to counterparties similar to OTC contracts.

- **Collateral Arrangements:** A third party independently calculates the Bank's credit risk exposure for each trading counterparty on a daily basis. If this calculation results in the need for action to mitigate the exposure, funds are exchanged between the Bank and its counterparties (generally referred to as margin activities). Policy limits, established by the ALCO and approved by the Board, guide the Bank's margin activities.
- **Primary Types of Collateral:** The Bank enters into contractual agreements with its trading counterparties, and these agreements identify the types of collateral that are eligible to be utilized in maintaining collateral arrangements. Currently, USAA only exchanges cash as margin collateral.
- **Potential Collateral Requirements:** Daily changes in market interest rates determine the amount of collateral (referred to as variation margin) that needs to be exchanged between the Bank and its counterparties.

The Bank did not purchase or sell any credit derivatives or engage in any margin lending transactions during the quarter-to-date period ended June 30, 2024.

### **Repurchase Activities**

- **Collateral Arrangements:** To help manage liquidity, the Bank enters into tri-party repurchase (repo) transactions, which is a short-term collateralized form of borrowing/lending. With regards to tri-party repo transactions, a collateral agent/custodian bank independently provides to the Bank and the counterparty collateral valuation for each transaction on a daily basis where the term of the trade is greater than one day. Margin maintenance activities can include the following: changes in valuation resulting in the need to bring pledged collateral back into alignment with the terms of the repo transaction or eligible collateral is exchanged/substituted between the Bank and its counterparties.

- **Primary Types of Collateral:** The Bank enters into contractual agreements with its trading counterparties and these agreements identify the types of collateral and haircuts that are eligible to be utilized in tri-party repurchase transactions.
- **Potential Collateral Margin Maintenance:** Daily changes in market valuations determine the amount of collateral that potentially needs to be exchanged between the Bank and its counterparties.

During Q2 2024, the quarterly average amount for repo and reverse repo transactions was \$43.9 million and \$0.0 million, respectively.

The following exhibit provides information about the Bank's OTC derivative contracts. The gross positive fair value of derivative contracts is the greater of the positive mark-to-market of each individual trade or zero. As indicated in the table, there were OTC derivative contracts with positive fair values. The Bank also had contracts with the same counterparty with gross negative fair values which are netted based on legally enforceable netting agreements. The counterparties posted collateral according to counterparty agreements, which in some cases, can be greater than the net contract exposure due to minimum transfer thresholds and timing. The net counterparty exposure was \$3.5 million.

### Exhibit 15: Counterparty Exposures

All dollars in millions; information as of June 30, 2024

| Over-the-Counter Derivative Contracts        | Dollars    |
|--|------------|
| Notional Amount of Contracts                 | \$ 1,324.0 |
| Gross Positive Fair Value of Contracts       | 2.8        |
| Less: Gross Negative Fair Value of Contracts | 2.1        |
| Net Exposure of Contracts                    | 0.7        |
| Collateral Posted                            | 2.6        |
| Unadjusted Exposure to Counterparties        | 3.3        |
| Counterparty exposure to USAA                | 0.1        |
| Net Exposure to Counterparties               | \$ 3.5     |

Table may not foot due to rounding

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## **Credit Risk Mitigation**

The Bank engages in credit risk mitigation activities, which include accepting collateral on certain loans. Collateral types include automobiles, motorcycles, boats, recreational vehicles, leisure vehicles, certificates of deposit, non-commercial residential property and land, where the borrower's intent is to build a house that they intend to occupy as their primary residence.

- **Credit Concentration:** The Bank routinely monitors segments across its loan portfolio to monitor concentrations by product, geographic location, credit quality and borrower. The Bank frequently analyzes the loan portfolio to identify additional segments and adjust monitoring oversight appropriately. The results from these monitoring activities are provided to senior management and the BCRMC for review and to inform the decision-making process.
- **Loan Workout Programs:** The Bank enters into loan modification agreements with certain members who are experiencing financial distress. The loan workout program attempts to reduce the potential financial loss the Bank might otherwise experience by restructuring the member's loan terms and/or conditions in a way that enables the member to repay the loan to try and prevent charge-off, repossession or foreclosure. Members are approved for loan workout programs after they meet specific criteria, which include their willingness and ability to repay the debt.
- **Counterparties:** Policy limits constrain the credit risk exposure that arises from OTC transactions. The BMRC routinely monitors credit risk to maintain exposure within acceptable parameters and establishes and enforces counterparty credit limits for FSB and USB. The BMRC also monitors market risk to identify possible events or future changes in economic conditions that could have unfavorable effects on the Bank's credit exposures and to assess the Bank's ability to withstand such changes. The BMRC actively engages in contingency planning and escalation activities and monitors ongoing capital planning activities to provide independent oversight and monitoring of the linkage between capital allocation and market risks. The ALCO routinely monitors the results from operations and directs action to ensure compliance with policy as necessary. These monitoring activities include the ongoing evaluation of concentrations, credit ratings and the Bank's financial exposure to each counterparty (i.e., value at risk).

## **Securitization**

A participant in the securitization market is typically an originator, servicer, sponsor or investor. The Bank's primary securitization-related activity is serving as an originator and/or servicer in securitizations.

### **Bank as Securities Issuer**

As part of its capital and liquidity management programs, the Bank enters into securitization transactions as an issuer or sponsor. In a securitization transaction, loans originated by the Bank are sold to a Special Purpose Entity (SPE), which then issues to investors various forms of interest in those assets. In a securitization transaction, the Bank typically receives cash as proceeds for the assets transferred to the SPE. The Bank often services the loans after the sale, and retains the right to repurchase those receivables from the SPE if the outstanding balance of the receivables falls to a level where the cost exceeds the benefits of servicing.

There are two Variable Interest Entities (VIEs) associated with the Bank's consumer loan securitizations outstanding as of June 30, 2024: the 2023 USAA Auto Owners Trust (AOT 2023-A) and AOT 2022-A. The AOT 2023-A transaction met the U.S. GAAP criteria for secured borrowing accounting, while the AOT 2022-A transaction met the requirements for true sale accounting. The Bank is the primary beneficiary of AOT 2023-A and is required to consolidate the trust. AOT 2022-A is not consolidated because the Bank is not the primary beneficiary. Although the Bank services the consumer loans in the AOTs, USAA has the unilateral right to reassign the Bank's servicing rights to any other USAA subsidiary without cause.

All securitizations conducted by the Bank and USAA are completed in accordance with applicable regulations and the accounting is in conformance with U.S. GAAP. For transactions that meet the criteria to be accounted for as a sale, the Bank has elected to utilize the present value of estimated expected future cash flows using an observable discount rate commensurate with the risks involved to estimate fair value of the gain or loss on sale recognized.

For the 2023-A securitization, FSB retained its rights to any residual interest through its retention of the AOT's certificates. The Bank retained a 5% vertical interest in the notes issued by the AOT to satisfy the SEC Regulation RR. Additionally, the Bank retained the remaining 95% of the Class A-1 notes and the Class B notes. For the 2022-A transaction, USAA purchased the certificates at fair value simultaneously with the

execution of the deals and USAA retained a 5% vertical interest in the notes issued by the AOT to satisfy the SEC Regulation RR.

As of June 30, 2024, the Bank does not have any synthetic securitization exposure and does not act as a sponsor of any third-party securitizations.

As of June 30, 2024, the Bank had no auto loans classified as held for sale.

### Exhibit 16: FSB Assets Held in Traditional Securitizations<sup>(a)</sup>

All dollars in millions; information as of June 30, 2024

| Traditional Securitized Assets | Principal Amount Outstanding | Assets Past Due <sup>(b)</sup> |
|--------------------------------|------------------------------|--------------------------------|
| Consumer - Auto                | \$ 165                       | \$ 1                           |

(a) Represents assets held in nonconsolidated securitization VIEs

(b) Represents assets 30 days or more past due

### Equities Not Subject to the Market Risk Rule

The Bank's equity holdings are limited to assets held within money market mutual funds by its custodian that arise from facilitating investment portfolio activities and the required level of stock in the Federal Home Loan Bank of Dallas.

The following exhibit provides the book and fair values of these investments as well as their impact to risk-weighted assets for the current quarter.

### Exhibit 17: Equities Not Subject to the Market Risk Rule, Carrying and Fair Value

All dollars in millions; information as of June 30, 2024

| Equities Not Subject to the Market Risk Rule | Carrying Value | Fair Value |
|--|----------------|------------|
| Non-Publicly Traded                          | \$ 272         | \$ 272     |
| Publicly Traded                              | 59             | 59         |
| Total  | \$ 331         | \$ 331     |

Table may not foot due to rounding

**Exhibit 18: Equities Not Subject to the Market Risk Rule by Risk Weight Bands**

All dollars in millions; information as of June 30, 2024

| <b>Risk Weights</b>    | <b>Carrying Value</b> | <b>Risk-Weighted Asset Amount</b> | <b>Capital Impact of RWA<sup>(a)</sup></b> |
|------------------------|-----------------------|-----------------------------------|--|
| 0-20%                  | \$ 331                | \$ 66                             | 5.3  |
| 21-100%                | —                     | —                                 | —  |
| 101-500%               | —                     | —                                 | —  |
| 501-1,250%             | —                     | —                                 | —  |
| <b>Total Exposures</b> | <b>\$ 331</b>         | <b>\$ 66</b>                      | <b>5.3</b>                                 |

Table may not foot due to rounding

*(a) The capital impact of RWA is calculated by multiplying risk-weighted assets by the minimum total risk-based capital ratio of 8%*

For these equity investments any realized or unrealized gains or losses were appropriately reflected in the Bank's financial statements.



### ***Interest Rate Risk for Nontrading Activities***

The Bank is exposed to nontrading interest rate risk that arises from member decisions to use loan and deposit products, as well as the Bank's investment and capital management actions. For example, the interest rate the Bank charges for a three-year auto loan is fixed for the three-year period. However, the interest rate that the Bank pays its members for holding funds in their deposit accounts is influenced by market rates, which could change on a daily basis. In this example, the difference in the repricing and maturity characteristics of retail loans, investments and deposits drives the Bank's exposure to nontrading interest rate risk.

The potential financial impact from nontrading interest rate risk is measured and evaluated on a frequent basis. The Bank's current estimates for a +/- 100 basis point and +/- 200 basis point parallel shift in interest rates are provided in the following exhibit.

#### **Exhibit 19: Interest Rate Risk Simulation of Net Interest Income (NII)**

Simulation as of March 31, 2024

| <b>Interest Rate Risk Simulation of Net Interest Income</b> | <b>% Change in<br/>1-Yr Net<br/>Interest Income</b> |
|---|---|
| +200 basis points   | 1.92  |
| +100 basis points   | 1.14  |
| -100 basis points   | -2.45   |
| -200 basis points   | -5.11   |