USAA Federal Savings Bank
2016 Dodd-Frank Act Stress Test Results
Supervisory Severely Adverse Scenario

June 15, 2016

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd Frank Act”) and regulations issued by the Office of the Comptroller of the Currency (“OCC”), federal savings banks with total consolidated assets of $10 billion or more, (“Covered Companies”), including USAA Federal Savings Bank (“the Bank”), are required to conduct annual stress tests to assess the potential impact of hypothetical economic scenarios (Supervisory Baseline, Adverse and Severely Adverse Scenarios) specified by the Board of Governors of the Federal Reserve System (the “Federal Reserve”) on their prospective earnings, losses and capital levels. Covered Companies are also required to disclose a summary of the stress test results under the Supervisory Severely Adverse Scenario.

The results presented in this document represent projections of our financial results and capital ratios under a hypothetical scenario that incorporates a set of assumed economic and financial conditions prescribed by our regulators. The projections are not intended to be our forecast of expected future economic or financial conditions or our forecast of the Bank’s expected future financial results or condition, but rather reflect possible results under the prescribed hypothetical scenario. Our future financial results and capital positions will be influenced by actual economic and financial conditions and various other factors.

Summary of Supervisory Severely Adverse Scenario

For the 2016 annual stress testing cycle, the Supervisory Severely Adverse Scenario is characterized by a severe global recession with sharp drop in GDP and high unemployment rate, accompanied by a period of heightened corporate financial stress and negative yields for short-term U.S. Treasury securities. Unemployment rate rises rapidly from its level in the last quarter of 2015, peaking at 10 percent in the middle of 2017. The level of U.S. real GDP reaches a trough in the first quarter of 2017 that is 6.3% below the pre-recession peak.

House prices and commercial real estate prices also experience considerable declines, with house prices dropping 25% through the third quarter of 2018 and commercial real estate prices falling 30% through the second quarter of 2018. Equity prices fall approximately 50 percent through the end of 2016, and equity market volatility increases sharply, approaching the levels attained in 2008.

As a result of the severe decline in real activity and subdued inflation, short-term Treasury rates fall to negative 0.5% by mid-2016 and remain at that level through the end of the scenario. Long-term Treasury yields drop to 0.25% in the first quarter of 2016 and then edge up gradually over the remainder of the scenario period. Mortgage rates initially drop from 3.9% to 3.2% in the first quarter of 2016, recovering to 4.1% in 2017 and stabilizing at that level. Corporate financial conditions are stressed severely, reflecting mounting credit losses, heightened investor risk aversion, and strained market liquidity conditions.

Risk Types

When conducting the company-run stress test under the Supervisory Severely Adverse Scenario, the Bank evaluates and incorporates the principal risks that could have a material impact on planned results and could change its capital position. The types of risks considered in the stress test include, but are not limited to the following:

Credit Risk:
Credit risk is the potential loss from not being able to collect the principal and interest balance on a loan or other investment contract when it is due. Loans to our customers are a significant component of the Bank's total assets and their related credit risk is among the most significant risks we manage. Higher loan losses resulting from unexpected worsening of credit in the loan portfolio can impact income and capital in several ways. First, higher than expected current charge-offs could result in a negative impact on net income. Second, if continued higher losses are expected, additional loan loss reserves and the corresponding provision expense may be required, further reducing net income. The combination of these two impacts may have a sudden large adverse effect on the Bank's capital adequacy.

Market Risk:
Market risk refers to the adverse movements in market rates or prices, such as interest rates, foreign exchange rates, credit spreads, or equity prices. The Bank's forecasted income from operations and investments is heavily influenced by interest rate expectations. Currently, interest rates are expected to rise steadily through 2017 per the Global Insights rate forecast used by the Bank for planning and forecasting purposes. If interest rates stay in a depressed state, the planned margins may not materialize because loans are planned to reset to higher rates more quickly than deposits.

Reputation Risk:
The Bank's reputation as a source of financial strength for its members is an important component in achieving our earnings and capital goals. An erosion of this reputation resulting from negative publicity or public opinion, whether real or perceived, could impact member growth, pre-tax income ("PTI"), product revenue, member satisfaction, or market share; all of which have capital implications.

Operational Risk:
Operational risk is the risk of loss from inadequate or failed internal processes, people or systems, or from external events. Operational risk includes such items as failure or disruption in IT systems, errors and omissions in processes, and fraud. Operational risks are inherent to the lines of business in which the Bank operates and are typical of financial institutions. While it is not possible to eliminate all operational risks, smaller losses are expected to occur as a normal part of the business. Substantial losses that could significantly erode the Bank's capital position are rare and the Bank continues to seek opportunities to reduce the likelihood of these in accordance with the Bank's risk appetite.

Legal and Compliance Risk:
Legal and compliance risk is the risk to earnings, capital, or reputation arising from violations of or noncompliance with current and changing laws, regulations, supervisory guidance, regulatory expectations, or the rules, standards or codes of conduct of self-regulatory organizations. This risk exposes the Bank to fines, civil money penalties, payment of damages, and the voiding of

contracts. Compliance risk can result in diminished reputation, reduced enterprise value, limited business opportunities, and lessened expansion potential.

Model Risk:
Model risk is the risk that an inaccurate or incomplete output is produced or created through the usage of flawed models.

Methodology

The Bank's stress testing methodology considers a broad range of potential stresses to the Bank's balance sheet, income statement and resulting capital and liquidity levels, including the implications of interest rate risk, operational risk, balance sheet composition, pre-provision net revenue, charge-offs and allowance for loan losses.

The Bank's stress testing methodologies are supported by a variety of economic models and assumptions, such as historical relationships between the Bank's performance and relevant macroeconomic and market variables, and are informed by a number of factors, including the Bank's experience in the recent financial crisis and recessionary environment as well as market expansion driven primarily by USAA opening up its membership to all eligible US military personnel and veterans. This market expansion has resulted in historic growth through the recent economic cycle that the Bank believes is not representative of the long term, sustainable growth rate.

In all scenarios, the Bank uses quantitatively-derived econometric models that incorporate macro drivers to estimate losses and pre-provision net revenue for the Bank's major portfolios. Where the Bank's data is more limited, the Bank uses committee approved assumptions to inform the Bank's forecasts.

In addition to model outputs, the Bank's stress testing framework also considers qualitative components that are guided by management's review and governance regarding the stress test results and processes. These management reviews involve subject matter experts from business units and risk areas across the company.

The Bank's capital ratios and profit and loss pro-formas include all capital actions that follow the DFAST regulatory guidance.

- For the initial quarter of each scenario, the Bank included the actual March 2016 planned capital action
- For the second through ninth quarters, common stock dividends equal the quarterly average dollar amount paid in 2015
- Preferred stock dividends are paid semi-annually based on their stated charter amount
- No additional stock issuances or redemptions are assumed in any scenario

The Bank has chosen to use the same capital action methodology in all baseline and stress scenarios and assessed each capital metric with planned capital actions under each stress scenario.

Summary of Stress Test Results

The following tables show projected regulatory capital ratios, projected losses, revenues and net income before taxes and projected loan losses by loan type for the Bank under the Supervisory Severely Adverse Scenario.

Table 1: Actual and Projected Capital Ratios

Actual Q4 2015 and projected stressed capital ratios through Q1 2018				
	Required regulatory minimum	Actual Q4 2015	Stressed capital ratios	
			Q1 2018	Minimum[1]
Common equity tier 1 capital ratio (%)	4.5%	12.6%	11.2%	11.2%
Tier 1 risk-based capital ratio (%)	6.0%	13.2%	11.8%	11.8%
Total risk-based capital ratio (%)	8.0%	14.5%	13.1%	13.0%
Tier 1 leverage ratio (%)	4.0%	9.1%	7.8%	7.8%

1. The minimum capital ratios represent the lowest projected ratio in the period 1Q16 to 1Q18 and do not necessarily occur in the same quarter.

Table 2: Projected Losses, Revenues and Net Income Before Taxes

Projected losses, revenue, and net loss before taxes through Q1 2018		
	Billions of dollars	Percent of average assets[1]
Pre-provision net revenue[2]	2.8	3.8%
Other Revenue[3]	—	
less		
Provisions	2.8	
Realized Gain/Losses on Securities (AFS/HTM)	—	
Trading and Counterparty Losses[4]	—	
Other Losses/gains[5]	—	
equals		
Net income before taxes	0.1	0.1%

1. Average assets are 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 losses 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.

Table 3: Projected Loan Losses

Projected loan losses, by type of loan, Q1 2016 - Q1 2018		
	Billions of dollars	Portfolio loss rates (%)[1]
Loan losses		
First-lien mortgages, domestic	0.1	2.0%
Junior liens and HELOCs, domestic	0.2	4.1%
Commercial and industrial	—	—
Commercial real estate, domestic	—	—
Credit cards	1.5	8.5%
Other consumer[2]	0.5	2.6%
Other loans	—	—

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. Other consumer loans include student loans and automobile loans.

Changes in Capital Positions

In the Supervisory Severely Adverse Scenario, the Bank's capital position declines from its level in the fourth quarter of 2015. Changes in our capital levels over the nine quarters in the planning horizon are primarily due to a reduction in earnings coupled with an increase in risk-weighted assets. The decline in earnings is largely driven by increased net charge-offs and reserves in the loan portfolio, primarily credit card. The hypothetical economic conditions in the scenario resulted in projected credit quality deterioration and projected provision expense of approximately $2.8 billion over the nine quarters. The increase in risk-weighted assets is mainly driven by growth in the Bank's total balance sheet over the planning horizon, most significantly net loan growth in the consumer loan and mortgage portfolios.

While capital ratios decline over the scenario horizon under the Supervisory Severely Adverse Scenario, both ending and minimum capital ratios are significantly above regulatory requirements. Therefore, the results of this scenario affirm the reasonableness of the planned capital transactions.

Additional information on required stress testing, the Supervisory Severely Adverse Scenario and the DFAST rules is available on the Federal Reserve's website at http://www.federalreserve.gov.