



Third Federal Savings and Loan Association of Cleveland

Annual Company-Run Stress Test Results

Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

June 29, 2015



Third Federal Savings and Loan Association of Cleveland (the "Association"), the wholly owned subsidiary of TFS Financial Corporation (NASDAQ: TFSL) (the "Company"), reported today the results of its 2015 company-run stress test conducted in accordance with regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Office of the Comptroller of the Currency under the Dodd-Frank Wall Street Reform and Consumer Protection Act. These company-run stress tests are designed to help assess whether financial institutions have sufficient capital to absorb losses and support operations using a hypothetical stressed scenario described by the Federal Reserve, over a nine-quarter projection period from October 1, 2014 to December 31, 2016. The stress testing requirements and expectations for financial institutions with assets between \$10 billion and \$50 billion, are significantly reduced compared to those with assets of \$50 billion or more. The medium-sized companies, including the Association, are not subject to the Federal Reserve's supervisory-run stress tests or the Federal Reserve's annual Comprehensive Capital Assessment and Review, are not required to submit an annual capital plan, and are not subject to a supervisory approval or denial of their stress test results.

The supervisory severely adverse scenario for the 2015 company-run test was released by the Federal Reserve on October 23, 2014. The hypothetical scenario involves economic conditions that are more adverse than currently expected by the Federal Reserve or the Association and therefore investors should not rely on these results as forecasts of expected or most likely financial results or capital ratios for the Association or the Company. In this scenario, economic factors in the United States reflect a contracting economy marked with rising unemployment, widening credit spreads, low treasury yields, declining asset prices and near-term inflationary pressures brought about by a considerable rise in the price of oil. While the Association does not believe this economic environment has a high probability of occurrence, the test demonstrates our ability to remain well-capitalized after absorbing anticipated losses during a period of deep recessionary effects in the economy.

The Association utilizes a systematic approach to modeling the financial projections in our stress testing iterations. The loan portfolio was stressed at a note-level after refining selected macro-economic variables to reflect regionalized levels that are more closely aligned with those of our operating footprint. Balance sheet growth projections and product composition are quantitatively determined based on the stated economic factors using a subjective level of judgement in regards to product mix and funding composition. The barometers for assessing the viability of the projections were our historical performance and the strategic planning processes. A description of the risks included in the company-run stress test follows:

- Credit- The risk that an extension of credit to a borrower will result in the inability of the borrower to meet the terms of the obligation.
- Liquidity- The risk that attrition of the retail deposit base would result in an inability to fund lending activity through alternative channels.
- Market- The risk that market interest rates would adversely affect fair market valuation assessments to our available-for-sale securities portfolio.
- Operational- The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.



The following table sets forth the projected financial results (in thousands) using the supervisory severely adverse scenario:

	Cumulative Hypothetical Results Over 9 Quarters	<u>Comments</u>
Loan Losses	\$ 129,075	Losses modeled at loan level from econometric model derived from historical industry observation and actual macro-economic experience.
Pre-Provision Net Revenue (PPNR)	\$ 72,509	PPNR represents projected net interest income (NII) <i>plus</i> non-interest income <i>less</i> non-interest expense.
Provision Expense	\$ 206,202	The projected Provision expense exceeds actual losses experienced in the 9-quarter period in order to build the reserve to cover future expected loan losses.
Net Loss	\$(88,463)	Net loss results from the after-tax impact of the provision expense exceeding PPNR.

The following table sets forth projected stressed capital ratios using the supervisory severely adverse scenario, as well as the required regulatory ratios to be considered well-capitalized, to be effective as of December 31, 2016:

	<u>9/30/14 Actual</u>	<u>12/31/16 Projected</u>	<u>Minimum Projected</u>	Regulatory Minimum to be considered Well- <u>Capitalized</u>
Common Equity Tier 1 Capital Ratio	Ratio not applicable	18.78%	18.53% (at 12/31/15)	6.50%
Tier 1 Risk-Based Capital Ratio	24.02%	18.78%	18.53% (at 12/31/15)	8.00%
Tier 1 Leverage Ratio	13.47%	11.31%	11.27% (at 3/31/16)	5.00%
Total Risk-Based Capital Ratio	25.25%	20.05%	19.79% (at 12/31/15)	10.00%

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The significant drivers of change in the projected regulatory capital ratios are:

- The impact of planned intercompany dividends from the Association to the Company.
- The impact of losses within the loan portfolio based on borrowers' strained ability to meet obligations.
- The impact of a combination of a compressed interest margin, increased marketing and operational expenses and a lack of loan portfolio growth.
- The impact of implementation of the Basel III standardized approach.

FORWARD LOOKING STATEMENTS

This document contains forward-looking statements as defined in the Securities Exchange Act of 1934 and is subject to the safe harbors created therein. The forward-looking statements contained herein include, but are not limited to, the Company's plans regarding its financial results and condition and capital ratios under a hypothetical scenario that incorporates a set of assumed economic and financial conditions prescribed by our regulators, which are more adverse than expected. These forward-looking statements involve risks and uncertainties that could cause the Company's results to differ materially from management's current expectations. The Company's risks and uncertainties are detailed in its filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended September 30, 2014. Forward-looking statements are based on the beliefs and assumptions of our management and on currently available information. The Company undertakes no responsibility to publicly update or revise any forward-looking statement.