Charles Schwab Bank

2015 Annual Dodd-Frank Act Stress Test Disclosure

June 2015

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I. Dodd-Frank Act Stress Test Results

A. About Charles Schwab Bank

Charles Schwab Bank (the Bank) is a wholly-owned subsidiary of The Charles Schwab Corporation (the Company), a savings and loan holding company. The Bank commenced operations in 2003 and is a federal savings bank that provides banking, trust, and custody services through a variety of channels, including telephone, mail, internet, mobile and branch offices. The Bank is subject to supervision and regulation by the Office of the Comptroller of the Currency (the OCC).

The Bank lends funds to banking clients primarily in the form of mortgage loans, home equity lines of credit (HELOCs), and personal loans secured by securities. These loans are largely funded by interest-bearing deposits. Additionally, the Bank maintains investment portfolios for liquidity as well as to earn interest by investing funds from deposits that are in excess of loans to clients and liquidity requirements.

B. About Capital Stress Testing

Beginning in 2015 in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) and 12 CFR Part 46 from the OCC, the Bank is required to conduct annual stress tests and publicly disclose a summary of certain results.

DFA stress testing requirements are implemented by the OCC through their Dodd-Frank Act Stress Testing program (DFAST). Consistent with requirements of this program, the Bank submitted a regulatory filing detailing the Bank's testing methodology and pro-forma results for various hypothetical economic scenarios to the OCC in March 2015. Results in this disclosure reflect certain forecasted financial measures under the Supervisory Severely Adverse Scenario (Severely Adverse Scenario) prescribed by the OCC. Unless otherwise noted, the results span the nine-quarter timeframe beginning October 1, 2014 and ending December 31, 2016. This disclosure specifically addresses provisions of the DFA requiring that company-run Supervisory Severely Adverse stress test results for the Bank be made publically available.

C. Discussion of Risks Included in Stress Testing

The Bank developed its capital management process by leveraging its existing risk management infrastructure in order to ensure that capital adequacy is assessed based on the Bank's material risks and its associated risk profile. In the normal course of business, the Bank assumes various types of risk. These risks are categorized into eight areas: credit, market (including interest rate risk), liquidity, operational, legal, compliance, strategic, and reputational impact.

Credit Risk: Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform its contractual obligations. Credit risk at the Bank comprises client credit risk and investment risk.

Market Risk: Market risk is the potential for changes in earnings from, or in the value of, financial instruments held by the Bank as a result of fluctuations in interest rates, equity prices, or market conditions. This includes interest rate risk, which is the risk to earnings or capital due to changes in interest rates.

Liquidity Risk: Liquidity risk is the risk arising from the inability to meet obligations when they come due without incurring unacceptable losses. It is the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument.

Operational Risk: Operational risk comprises all the risks that arise due to potentially inadequate or failed internal processes, people, and systems or from external events and relationships affecting the Bank and/or any of its key business partners and vendors. Operational risk includes model risk, fiduciary risk, and risks stemming from business continuity and incident management, information security and privacy, incentive compensation, physical security, and vendor management.

Legal Risk: Legal risk is the risk of a claim for damages or other relief brought by clients, employees, or third parties alleging a breach of legal requirements or other duties under law.

Compliance Risk: Compliance risk is the risk of legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation resulting from the failure to comply with laws, regulations, rules, or other regulatory requirements.

Strategic Risk: Strategic risk is considered across all enterprise risk management key risk categories and is evaluated through various mechanisms and reported through the risk governance structure. It can result from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Reputational Impact: Reputational impact is the risk that public trust in Schwab Bank will be adversely affected as a result of actual or perceived credit, market, liquidity, operational, legal, compliance, or strategic risk failures. This risk may expose the Bank to litigation, financial loss, or a decline in its client base.

D. Discussion of Methodologies Included in Stress Testing

The Bank uses a series of models and estimation techniques to translate the economic and financial variables in the Severely Adverse Scenario in order to project pre-provision net revenue (PPNR), the provision for loan and lease losses, realized gains and losses related to investment securities, and net income before taxes.

The Bank's PPNR is estimated as total revenues (including net interest revenue and non-interest revenue), less non-interest expenses. Net interest revenue is the difference between interest earned on interest-earning assets - such as the Bank's loan portfolio and investment portfolio - and interest paid on funding sources. The Bank uses multiple models, sensitivity analyses, and management overlays to project net interest revenue. Non-interest revenues and expenses are projected based on business drivers, such as new client assets, compensation and benefits - including discretionary compensation - and operational risk losses.

The Bank projects the provision for loan losses under stressed economic conditions by utilizing models, qualitative assessments, and management overlays that consider relationships between macroeconomic indicators, internal and industry-wide historic data, and portfolio characteristics.

The Bank uses management judgment in some cases to develop adjustment overlays to modeled outputs. Such overlays are used primarily to account for the unique risks or trends of certain portfolios that are not well captured in the Bank's models, or to otherwise compensate for model and data limitations.

E. Summary of Results

a) Scenario Summary

The OCC's Severely Adverse Scenario features a substantial weakening in global economic activity, accompanied by large reductions in asset prices. In the scenario, real GDP is approximately 4.5% lower in the fourth quarter of 2015 than its level in the third quarter of 2014, while the unemployment rate peaks at 10% in the middle of 2016. Short-term interest rates remain near zero through 2017, with Treasury yields on all maturities declining significantly. Equity prices fall by approximately 60% over the first five quarters of the forecast and equity market volatility increases sharply. House prices experience a peak-to-trough decline of approximately 25% during the scenario period. Driven by the assumed decline in corporate credit quality, the spreads on investment-grade corporate bonds increase from approximately 170 basis points to 500 basis points at their peak. Mortgage rates increase over the course of 2015, driven by the widening in spreads. Higher oil prices cause the annualized rate of change in the Consumer Price Index to reach 4.25% in the near term, before subsequently declining.

A complete description of the Severely Adverse Scenario can be found on the OCC's website: http://www.occ.gov/tools-forms/forms/bank-operations/stress-test-reporting.html.

b) Bank Results

In the Severely Adverse Scenario, the Bank's capital ratios remain above regulatory-defined well capitalized thresholds and internal limits throughout the forecasted nine-quarter horizon. The Bank's 7.2% Tier 1 Leverage Ratio at the beginning of the forecast declines to a low of 6.5% during the forecast horizon and is 7.0% at the end. The decrease of .2% in the Tier 1 Leverage Ratio is primarily due to growth in total assets partially offset by higher Tier 1 Capital. Tier 1 Capital grows by $2.2 billion over the forecast horizon primarily as a result of higher PPNR offset by provision for loan losses, net realized losses on securities and income taxes.

The Tier 1 Common Ratio improved during the nine-quarter horizon primarily as a result of the growth in the Tier 1 Capital described above partially offset by growth in risk-weighted assets which were calculated under the risk-based capital rules in effect as of September 30, 2014.

Projected risk-based capital ratios in the scenario initially decline in the first quarter of 2015 due to the implementation of the U.S. Final Capital Rules (Basel III).

At the time these results were finalized and submitted to the OCC, the first quarter of the forecast horizon was still a projection; the following tables have not been adjusted for actual results realized.

Projected Capital Ratios in the Severely Adverse Scenario			
	Actual	Stressed Capital Ratios	
	9/30/2014	12/31/2016	Minimum[1]
Tier 1 Common Ratio (%)	21.7	24.6	20.9
Common Equity Tier 1 Capital Ratio (%) [2]	n/a	22.2	18.0
Tier 1 Risk-based Capital Ratio (%) [3]	21.7	22.2	18.0
Total Risk-based Capital Ratio (%) [3]	21.8	22.5	18.3
Tier 1 Leverage Ratio (%)	7.2	7.0	6.5

[1] "Minimum" represents the lowest value over the nine-quarter forecast.

[2] Under the "standardized approach", the Bank was required to begin calculating and reporting Common Equity Tier 1 Ratios beginning January 1, 2015.

[3] From Q3 2014 to Q4 2014, the capital ratios are calculated using the general risk-based capital rules under previous regulatory rules. From Q1 2015 to Q4 2016, the capital ratios are calculated under the Regulatory Capital Rules' risk-based "standardized approach" utilizing transition provisions where applicable.

Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario through Q4 2016		
	Millions of dollars	Percent of average assets[4]
Pre-provision net revenue	3,823	2.9%
Other revenue	0	
Provisions for loan and lease losses	(118)	(.1%)
Realized gains/losses on securities (AFS and HTM)	(46)	--
Trading and Counterparty Losses	0	
Other Gain/Loss	0	
Net Income Before Taxes	**3,659**	**2.8%**

Projected Loan Losses, by Type of Loan in the Severely Adverse Scenario through Q4 2016		
	Millions of dollars	Portfolio Loss Rate[5]
Loan Losses	41	0.3%
First-lien mortgages, domestic	17	0.2%
Junior liens and HELOCs, domestic	24	0.8%
Commercial and industrial	n/a	n/a
Commercial real estate, domestic	n/a	n/a
Credit cards	n/a	n/a
Other consumer	0	0.0%
Other loan losses	0	0.0%

E. Forward-looking Statements

This disclosure contains forward-looking statements, including the projections of the Bank's capital ratios, revenue, losses and net income, under a hypothetical scenario incorporating a set of assumed economic and financial conditions that are more adverse than the Company expects, as determined by the Bank's regulators. The projections do not represent forecasts of expected results of operations or financial condition, but rather reflect the possible results under the prescribed hypothetical scenario. The Bank's future results of operations and financial condition will be influenced by actual economic and financial conditions and various other factors as described in the Company's annual report on Form 10-K for the year ended December 31, 2014, and other reports filed with the Securities and Exchange Commission, which are available at www.sec.gov.

[4] "Average assets" is the nine-quarter average of total assets.
[5] Denominator of the loss rate is based on the average of the nine quarters' balances.