Charles Schwab Bank

2016 Annual Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

October 2016

charles SCHWAB BANK

Own your tomorrow™

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, 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 regulated, examined, and supervised by the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau, and the Federal Deposit Insurance Corporation. The Bank is also subject to various requirements and restrictions under federal and state laws.

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 July 2016. 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 December 31, 2015 and ending March 31, 2018. This disclosure specifically addresses provisions of the DFA requiring that company-run Severely Adverse Scenario 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 enterprise 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 seven areas: credit, market (including interest rate risk), liquidity, operational, compliance, strategic, and reputational impact.

Credit Risk: The potential for loss due to a borrower, counterparty, or issuer failing to perform its contractual obligations.

Market Risk: The potential for changes in earnings or the value of financial instruments held by the Bank as a result of fluctuations in interest rates, equity prices, or market conditions.

Liquidity Risk: The potential that the Bank will be unable to sell assets or meet cash flow obligations when they come due without incurring unacceptable losses.

Operational Risk: The risk, including litigation, of inadequate or failed internal processes, people, and systems, or from external events and relationships impacting the Bank and/or any of its key business partners and third parties.

Compliance Risk: The potential for 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: The potential that public trust in the 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 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 utilizing models, qualitative assessments, and/or management overlays (as necessary) 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

i. Scenario Summary

The Severely Adverse Scenario 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. In this scenario, the level of U.S. real GDP begins to decline in Q1 2016 and reaches a trough in Q1 2017 that is 6.25% below the pre-recession peak. The unemployment rate increases by five percentage points, to 10%, by the middle of 2017, and headline consumer price inflation rises from about 0.25% at an annual rate in Q1 2016 to about 1.25% at an annual rate by the end of the recession.

Asset prices drop sharply in the scenario, consistent with the developments described above. Equity prices fall approximately 50% through the end of 2016, accompanied by a surge in equity market volatility, which approaches the levels attained in 2008. House prices and commercial real estate prices also experience considerable declines, with house prices dropping 25% through Q3 2018 and commercial real estate prices falling 30% through Q2 2018. Corporate financial conditions are stressed severely, reflecting mounting credit losses, heightened investor risk aversion, and strained market liquidity conditions; the spread between yields on investment-grade corporate bonds and yields on long-term Treasury securities increases to 5.75% by the end of 2016.

As a result of the severe decline in real activity and subdued inflation, short-term Treasury rates fall to -0.50% by mid-2016 and remain at that level through the end of the scenario. For the purposes of this scenario, it is assumed that the adjustment to negative short-term interest rates proceeds with no additional financial market disruptions. The 10 Year U.S. Treasury note yield drops to about 0.25% in Q1 2016, rising gradually thereafter to reach about 0.75% by the end of the recession in early 2017 and about 1.75% by Q1 2019.

Compared to last year's scenario, this year's Severely Adverse Scenario features a more severe downturn in the U.S. economy. The more severe downturn in activity assumed in the scenario reflects the Federal Reserve's scenario design framework for stress testing, which includes countercyclical elements. Under this framework, the unemployment rate in the Severely Adverse Scenario will reach a peak of at least 10%, which leads to a progressively greater increase in the unemployment rate when its starting level falls below 6%. In line with the more severe U.S. recession, this year's Severely Adverse Scenario also features a path of negative short-term U.S. Treasury rates. In turn, lower Treasury rates moderate the drop in asset prices and the increase in market volatility, compared to last year's scenario. Furthermore, this year's scenario does not feature the pronounced increase in inflation that was featured in last year's scenario.

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.

ii. 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 7.1% tier 1 leverage ratio at the beginning of the forecast declines to a low of 6.7% during the forecast horizon and is 7.2% at the end. The increase of 0.1% in the tier 1 leverage ratio is primarily due to higher tier 1 capital relative to the growth in total assets. The tier 1 leverage ratio increases over the forecast horizon due to net income growing at a higher rate than average assets. The common equity tier 1 capital ratio improved 4.2% during the nine-quarter horizon also due to growth in net income during the forecasted period coupled with a decrease in risk weighted assets (RWA). RWA were calculated under the Regulatory Capital Rules' risk-based "standardized approach".

The following tables have not been adjusted for actual results realized.

Projected Capital Ratios in the Severely Adverse Scenario			
	Actual	Stressed Capital Ratios	
	12/31/2015	3/31/2018	Minimum[1]
Common equity tier 1 capital ratio (%)	18.1%	22.3%	18.3%
Tier 1 capital ratio (%)	18.1%	22.3%	18.3%
Total capital ratio (%)	18.1%	22.6%	18.4%
Tier 1 leverage ratio (%)	7.1%	7.2%	6.7%

Actual Q4 2015 and Projected Q1 2018 Risk-Weighted Assets in the Severely Adverse Scenario		
	Actual 12/31/2015	Projected 3/31/2018
Risk-weighted assets (millions of dollars)	$51,516	$49,611

Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario through Q1 2018		
	Millions of dollars	Percent of average assets[2]
Pre-provision net revenue	$4,296	2.8%
Less:		
Other revenue	0	0.0%
Provisions for loan and lease losses	174	0.1%
Realized gains/losses on securities (AFS and HTM)	0	0.0%
Trading and Counterparty Losses	0	0.0%
Other Gain/Loss	5	0.0%
Net Income Before Taxes	**$4,117**	**2.7%**

Projected Loan Losses, by Type of Loan in the Severely Adverse Scenario through Q1 2018		
	Millions of dollars	Portfolio Loss Rate[3]
Loan Losses	$70	0.7%
First-lien mortgages, domestic	35	0.5%
Junior liens and HELOCs, domestic	35	1.2%
Commercial and industrial	0	0.0%
Commercial real estate, domestic	0	0.0%
Credit cards	0	0.0%
Other consumer	0	0.0%
Other loan losses	0	0.0%

[1] "Minimum" represents the lowest value over the nine-quarter forecast.
[2] "Average assets" is the nine-quarter average of total assets.
[3] Denominator of the loss rate is based on the average of the nine quarters' balances.

F. Forward-looking Statements

This disclosure contains forward-looking statements, including the projections of the Bank's capital ratios, risk weighted assets, 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, 2015, and other reports filed with the Securities and Exchange Commission, which are available at www.sec.gov.