The Charles Schwab Corporation and Charles Schwab Bank

2017 Annual Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

June 2017

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I. Dodd-Frank Act Stress Test Results

A. About Charles Schwab

i. Charles Schwab Corporation

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California. CSC was incorporated in 1986 and engages, through its subsidiaries (collectively referred to as the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. CSC is regulated, supervised, and examined by the Board of Governors of the Federal Reserve System (Federal Reserve). CSC is also subject to various requirements and restrictions under federal and state laws.

ii. Charles Schwab Bank

Charles Schwab Bank (the Bank) is a wholly-owned subsidiary of CSC. The Bank, which 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

Since 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 has been required to conduct annual stress tests and publicly disclose a summary of certain results. Beginning in 2017, in accordance with the DFA and 12 CFR Part 252 from the Federal Reserve, CSC is required to conduct annual stress tests and publicly disclose a summary of certain results.

DFA stress testing requirements are implemented by the Federal Reserve and the OCC through their Dodd-Frank Act Stress Testing program (DFAST). Consistent with requirements of this program, CSC and the Bank submitted regulatory filings detailing the testing methodology and pro-forma results for various hypothetical economic scenarios to the Federal Reserve and to the OCC, respectively, in April 2017. Results in this disclosure reflect certain forecasted financial measures under the Supervisory Severely Adverse Scenario (Severely Adverse Scenario) prescribed by both agencies. Unless otherwise noted, the results span the nine-quarter timeframe beginning December 31, 2016 and ending March 31, 2019. This disclosure specifically addresses provisions of the DFA requiring that company-run Severely Adverse Scenario stress test results for CSC and the Bank be made publicly available.

C. Discussion of Risks Included in Stress Testing

The Company 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 Company's material risks and its associated risk profile. In the normal course of business, the Company 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 Company as a result of fluctuations in interest rates, equity prices, or market conditions.

Liquidity Risk: The potential that the Company will be unable to sell assets or meet cash flow obligations when they become 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 Company and/or any of its key business partners and vendors.

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 Company 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 Company to litigation, financial loss, or a decline in its client base.

D. Discussion of Methodologies Included in Stress Testing

The Company 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 Company'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 Company's loan portfolio and investment portfolio - and interest paid on funding sources. The Company 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 Company projects the provision for loan and lease losses (PLL) 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 Company 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 Company'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 that is accompanied by a period of heightened stress in corporate loan markets and commercial real estate markets. The unemployment rate peaks at 10%, commercial real estate prices plunge, and yields on investment-grade corporate bonds widen significantly. Yields on U.S. treasuries are bound at zero for this year's scenario, as compared to negative yields in last year's scenario. The global recession is evidenced by more severe recessionary episodes in the Euro area and U.K. and less severe in Asia.

The level of U.S. real GDP begins to decline in Q1 2017 and reaches a trough in Q2 2018 that is about 6.5% below the pre-recession peak. The unemployment rate increases by about 5.25%, to 10%, by Q3 2018. Headline consumer price inflation falls to about 1.25% at an annual rate by Q2 2017 and then rises to about 1.75% at an annual rate by mid-2018.

As a result of the severe decline in real activity, short-term Treasury rates fall and remain near zero through the end of the scenario period. The 10-year Treasury yield drops to 0.75% in Q1 2017, rising gradually thereafter to around 1.5% by Q1 2019, and to about 1.75% by Q1 2020. Financial conditions in corporate and real estate lending markets are stressed severely. The spread between yields on investment-grade corporate bonds and yields on long-term Treasury securities widens to about 5.5% by the end of 2017, an increase of 3.5% relative to Q4 2016. The spread between mortgage rates and 10-year Treasury yields widens to over 3.5% over the same time period.

Asset prices drop sharply in this scenario. Equity prices fall by 50% through the end of 2017, accompanied by a surge in equity market volatility, which approaches the levels attained in 2008. House prices and commercial real estate prices also experience large declines, with house prices and commercial real estate prices falling by 25% and 35%, respectively, through Q1 2019.

A complete description of the severely adverse scenario can be found:

- On the Federal Reserve's website: https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20170203a5.pdf
- On the OCC's website: https://www.occ.gov/tools-forms/forms/bank-operations/stress-test-reporting.html

ii. CSC Results

In the Severely Adverse Scenario, CSC remains well capitalized and above internal limits throughout the forecasted nine-quarter horizon. CSC's 7.2% tier 1 leverage ratio at the beginning of the forecast drops in Q1 2017 to 6.9%, ultimately declining to a low of 6.2% at the end of the forecast horizon. The decrease of 100 basis points (bps) in the tier 1 leverage ratio is primarily due to lower tier 1 capital relative to the growth in total assets. The tier 1 leverage ratio decreases over the forecast horizon due to net income growing at a lower rate than average assets. The common equity tier 1 capital ratio increased from 18.4% to 23.0% during the nine-quarter horizon due to a change in the mix of assets, resulting in a decrease in risk-weighted assets (RWA). RWA were calculated under the regulatory capital rules' risk-based "standardized approach".

iii. 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 7.0% tier 1 leverage ratio at the beginning of the forecast declines to a low of 6.9% during the forecast horizon and is 6.9% at the end. The decrease of .1% in the tier 1 leverage ratio is primarily due to lower tier 1 capital relative to the growth in total assets. The tier 1 leverage ratio decreases over the forecast horizon due to net income growing at a lower rate than average assets. The common equity tier 1 capital ratio increased from 19.8% to 27.9% during the nine-quarter horizon due to a per-month dollar limit on the assumed investment purchases and the halting of purchasing higher risk credit investments when GDP growth is negative, resulting in a significantly higher allocation to Treasuries in the investment portfolio. This resulted in a decrease in RWA. Similar to CSC, RWA were calculated using the "standardized approach".

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

a) Projected Capital Ratios in the Severely Adverse Scenario

	The Charles Schwab Corporation			Charles Schwab Bank		
	Actual 12/31/2016	Stressed Capital Ratios		Actual 12/31/2016	Stressed Capital Ratios	
		3/31/2019	Minimum[1]		3/31/2019	Minimum[1]
Common equity tier 1 capital ratio (%)	18.4%	23.0%	18.4%	19.8%	27.9%	19.8%
Tier 1 capital ratio (%)	22.5%	27.3%	22.5%	19.8%	27.9%	19.8%
Total capital ratio (%)	22.6%	27.4%	22.6%	19.9%	28.0%	19.9%
Tier 1 leverage ratio (%)	7.2%	6.2%	6.2%	7.0%	6.9%	6.9%

b) Actual Q4 2016 and Projected Q1 2019 Risk-weighted Assets in the Severely Adverse Scenario

	The Charles Schwab Corporation		Charles Schwab Bank	
	Actual 12/31/2016	Projected 3/31/2019	Actual 12/31/2016	Projected 3/31/2019
Risk-weighted assets (millions of dollars)	$68,179	$65,048	$59,915	$57,679

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

c) *Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario, through Q1 2019*

	The Charles Schwab Corporation		Charles Schwab Bank	
	Millions of dollars	Percent of average assets[2]	Millions of dollars	Percent of average assets[2]
Pre-provision net revenue[2]	$5,164	2.0%	$6,794	3.3%
Less:				
Other revenue	0	0.0%	0	0.0%
Provisions for loan and lease losses[3]	76	0.0%	76	0.1%
Realized gains/losses on securities (AFS and HTM)	0	0.0%	0	0.0%
Trading and Counterparty Losses	0	0.0%	0	0.0%
Other Gain/Loss	0	0.0%	0	0.0%
Net Income BeforeTaxes	**$5,088**	**2.0%**	**$6,718**	**3.2%**

The most significant difference between the forecasted results for CSC and the Bank under the Severely Adverse Scenario results from assumed operational losses at Charles Schwab Investment Management, Inc., and Charles Schwab & Co., Inc., subsidiaries of CSC.

d) *Projected Loan Losses, by Type of Loan in the Severely Adverse Scenario, through Q1 2019*

The Charles Schwab Corporation and Charles Schwab Bank		
	Millions of dollars	Portfolio Loss Rate[4]
Loan Losses	$39	0.3%
First-lien mortgages, domestic	25	0.3%
Junior liens and HELOCs, domestic	14	0.6%
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%

[2] PPNR = Asset Mgmt Fees + Net Interest Revenue + Trading Revenue + Other Revenue - Total Expenses + PLL for CRA Loans.
[3] To align with DFAST reporting, PLL for Community Reinvestment Act (CRA) loans have been moved from PLL to PPNR.
[4] 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 CSC's and 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 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 Company's future results of operations and financial condition will be influenced by actual economic and financial conditions and various other factors as described in CSC's annual report on Form 10-K for the year ended December 31, 2016, and other reports filed with the Securities and Exchange Commission, which are available at www.sec.gov.