

The Charles Schwab Corporation
and Charles Schwab Bank

2018 Annual Dodd-Frank Act
Stress Test Disclosure

Supervisory Severely Adverse Scenario

June 2018

The logo consists of a blue square containing the text "charles" in a white, lowercase, serif font, and "SCHWAB" in a white, uppercase, sans-serif font below it.

charles
SCHWAB

Own your tomorrow.

I. Dodd-Frank Act Stress Test Results

A. About The 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 Schwab or 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.

i. Charles Schwab Bank

Charles Schwab Bank (CSB) is a wholly-owned subsidiary of CSC. CSB, 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. CSB 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. CSB 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, CSB 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 OCC through their Dodd-Frank Act Stress Testing program (DFAST). Consistent with requirements of this program, CSC and CSB submitted regulatory filings detailing the testing methodology and pro-forma results for various hypothetical economic scenarios to the Federal Reserve and OCC in April 2018. Results in this disclosure reflect certain forecasted financial measures under the severely adverse scenario prescribed by both agencies. Unless otherwise noted, the results span the nine-quarter timeframe beginning December 31, 2017 and ending March 31, 2020. This disclosure specifically addresses provisions of the DFA requiring that company-run severely adverse scenario stress test results for CSC and CSB be made publically 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 Schwab's material risks and its associated risk profile. In the normal course of business, Schwab 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 Schwab 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 Schwab 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 Schwab 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

Schwab 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 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 loan portfolio and investment portfolio - and interest paid on funding sources. Schwab 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.

Schwab projects the provision for loan losses utilizing models, qualitative assessments, and/or management judgement overlays (as necessary) that consider relationships between macroeconomic indicators, internal and industry-wide historic data, and portfolio characteristics.

Management judgment is used in certain 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 global aversion to long-term fixed-income assets. As a result, long-term rates do not fall and yield curves steepen in the United States and the four countries/country blocks in the scenario. In turn, these developments lead to a broad-based and deep correction in asset prices—including in the corporate bond and real estate markets.

In this scenario, the level of U.S. real GDP begins to decline in the first quarter of 2018 and reaches a trough in the third quarter of 2019 that is 7.5% below the pre-recession peak. The unemployment rate increases almost 6 percentage points, to 10%, by the third quarter of 2019. Headline consumer price inflation falls below 1% at an annual rate in the second quarter of 2018 and rises to about 1.5% at an annual rate by the end of the scenario.

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. However, investor aversion to long-term fixed-income assets keeps 10-year Treasury yields unchanged through the scenario period. 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 5¼ percentage points by the start of 2019, while the spread between mortgage rates and 10-year Treasury yields widens to about 3½ percentage points over the same time period.

Asset prices drop sharply in this scenario. Equity prices fall 65% by early 2019, accompanied by a surge in equity market volatility. The volatility index moves above 60% in the first half of 2018. Real estate prices also experience large declines, with house prices and commercial real estate prices falling 30% and 40%, respectively, by the third quarter of 2019.

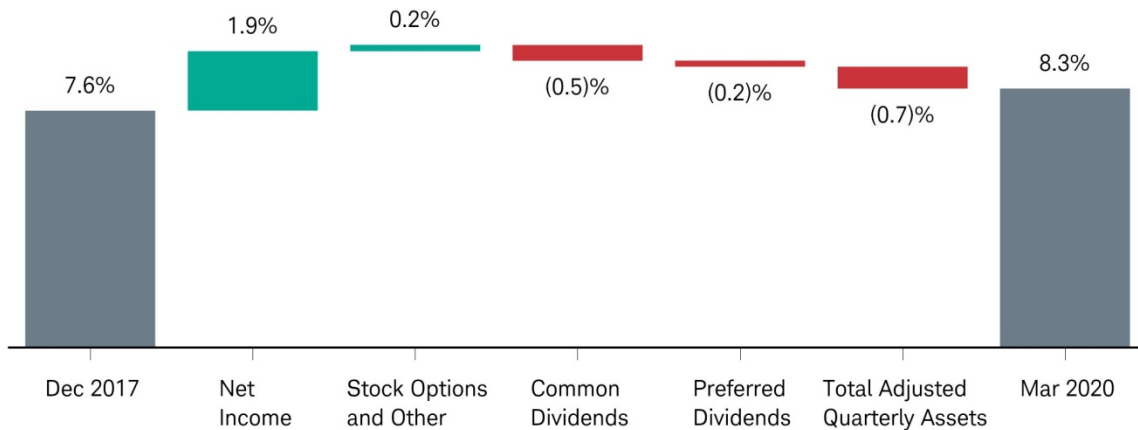
A complete description of the severely adverse scenario can be found:

- On the Federal Reserve's website:
<https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20180201a1.pdf>
- On the OCC's website:
<http://www.occ.gov/tools-forms/forms/bank-operations/stress-test-reporting.html>

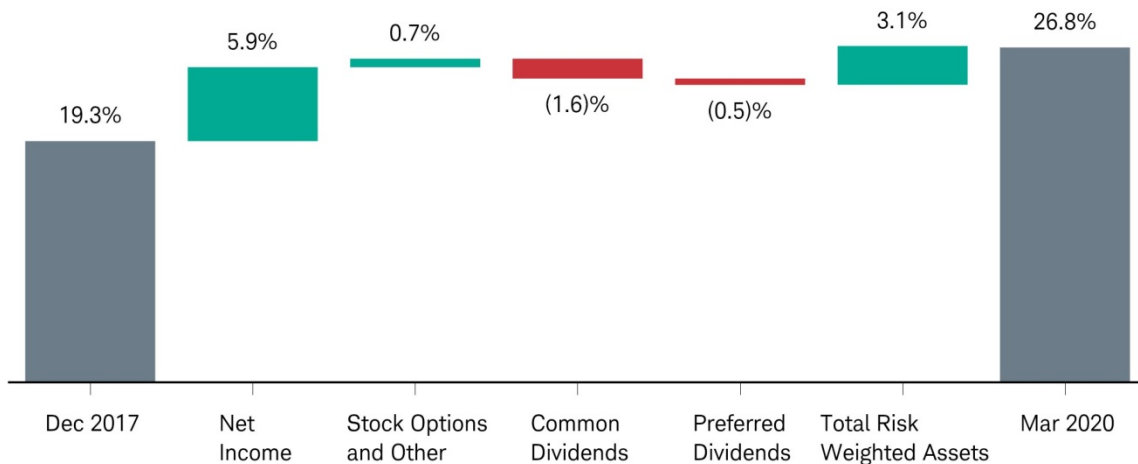
ii. CSC Results

In the severely adverse scenario, CSC's capital ratios remain above regulatory-defined thresholds and internal limits throughout the forecasted nine-quarter horizon. The Company's 7.6% tier 1 leverage ratio at the beginning of the forecast drops in Q1 2018 to 7.1% but then recovers, ending at 8.3%. The initial decrease is due primarily to lower tier 1 capital, relative to growth in total assets. The tier 1 leverage ratio increases over the forecast horizon due to cash movement off the balance sheet. The common equity tier 1 capital ratio increased from 19.3% to 26.8% 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".

Tier 1 Leverage Ratio, Severely Adverse Scenario, The Charles Schwab Corporation



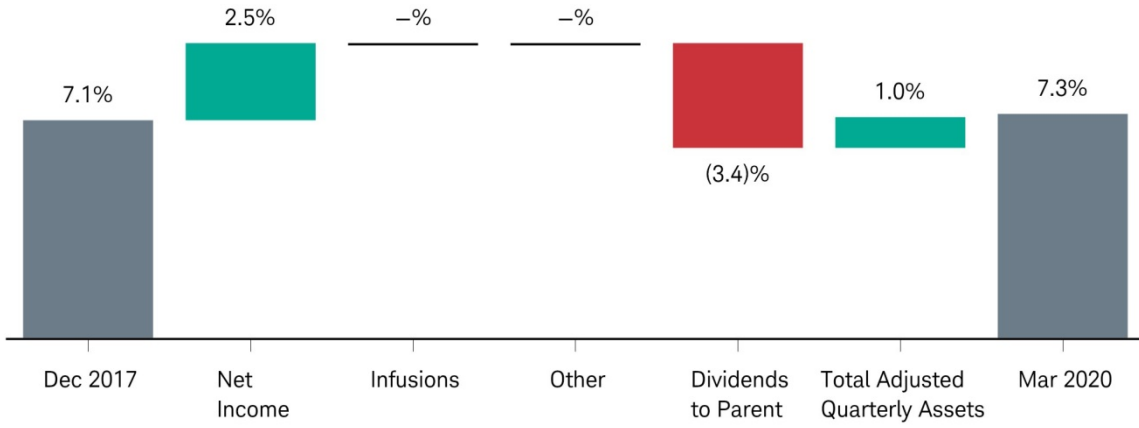
Common Equity Tier 1 Capital Ratio, Severely Adverse Scenario, The Charles Schwab Corporation



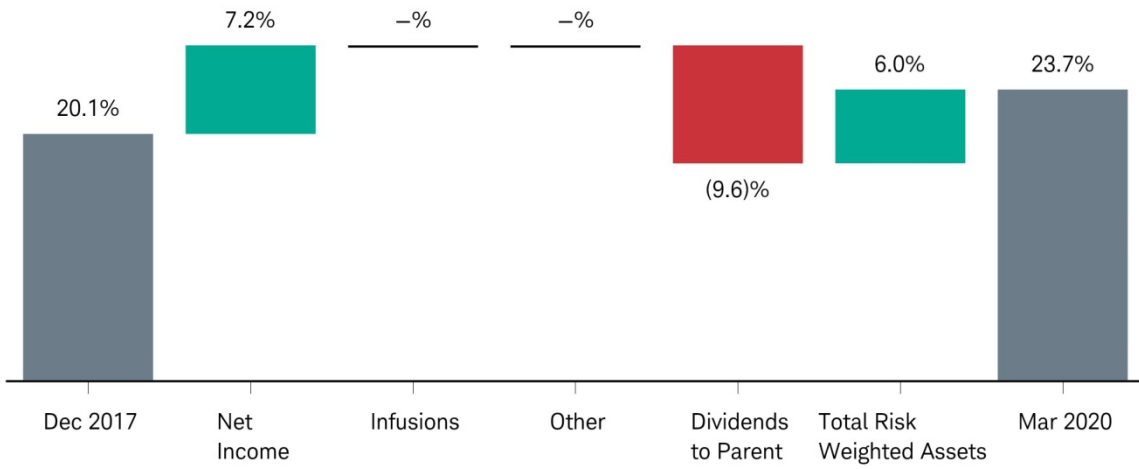
iii. CSB Results

In the severely adverse scenario, CSB's capital ratios remain above regulatory-defined well-capitalized thresholds and internal limits throughout the forecasted nine-quarter horizon. CSB's 7.1% tier 1 leverage ratio at the beginning of the forecast drops in Q1 2018 to 6.8% but then recovers, ending at 7.3%. The initial decrease is due primarily to lower tier 1 capital relative to growth in total assets. The tier 1 leverage ratio increases over the forecast horizon due to cash movement off the balance sheet. The common equity tier 1 capital ratio increased from 20.1% to 23.7% during the nine-quarter horizon due to lower investment purchases and purchasing lower 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".

Tier 1 Leverage Ratio, Severely Adverse Scenario, Charles Schwab Bank



Common Equity Tier 1 Capital Ratio, Severely Adverse Scenario, Charles Schwab Bank



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

a) *Actual Q4 2017, Projected Q1 2020, and Minimum Capital Ratios in the Severely Adverse Scenario*

	The Charles Schwab Corporation			Charles Schwab Bank		
	Actual 12/31/2017	Stressed Capital Ratios		Actual 12/31/2017	Stressed Capital Ratios	
		3/31/2020	Minimum ¹		3/31/2020	Minimum ¹
Common equity tier 1 capital ratio (%)	19.3%	26.8%	20.1%	20.1%	23.7%	20.9%
Tier 1 capital ratio (%)	23.0%	31.0%	23.9%	20.1%	23.7%	20.9%
Total capital ratio (%)	23.0%	31.1%	24.0%	20.1%	23.9%	20.9%
Tier 1 leverage ratio (%)	7.6%	8.3%	7.1%	7.1%	7.3%	6.8%

b) *Actual Q4 2017 and Projected Q1 2020 Risk-weighted Assets in the Severely Adverse Scenario*

	The Charles Schwab Corporation		Charles Schwab Bank	
	Actual 12/31/2017	Projected 3/31/2020	Actual 12/31/2017	Projected 3/31/2020
Risk-weighted assets (millions of dollars)	\$75,866	\$67,035	\$66,519	\$49,695

c) *Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario, through Q1 2020*

	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 ³	\$5,879	2.3%	\$6,477	3.7%
Less:				
Other revenue	0	0.0%	0	0.0%
Provisions for loan and lease losses	159	0.1%	159	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 Before Taxes	\$5,720	2.3%	\$6,318	3.6%

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

² "Average assets" is the nine-quarter average of total assets.

³ PPNR = Asset Mgmt Fees + Net Interest Revenue + Trading Revenue + Other Revenue - Total Expenses + PLL for CRA Loans.

d) *Projected Loan Losses, by Type of Loan in the Severely Adverse Scenario, through Q1 2020*

Charles Schwab Bank and The Charles Schwab Corporation		
	Millions of dollars	Portfolio Loss Rate ⁴
Loan Losses	\$96	0.77%
First-lien mortgages, domestic	54	0.52%
Junior liens and HELOCs, domestic	38	1.96%
Commercial and industrial	0	0.0%
Commercial real estate, domestic	0	0.0%
Other consumer	0	0.0%
Other loan losses	4	2.03%

F. Forward-looking Statements

This disclosure contains forward-looking statements, including the projections of CSC's and CSB'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 Schwab 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. Schwab'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, 2017, and other reports filed with the Securities and Exchange Commission, which are available at www.sec.gov.

⁴ Denominator of the loss rate is based on the average of the nine quarters' balances.