The Charles Schwab Corporation and Charles Schwab Bank

2019 Annual Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

June 2019

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, which commenced operations in 2003, is a federal savings bank that provides banking, trust, and custody services. CSB is regulated, supervised, and examined by the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau, and the Federal Deposit Insurance Corporation (FDIC). 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 2019. Results in this disclosure reflect certain forecasted financial measures under the severely adverse scenario prescribed by both agencies. The results span the nine-quarter timeframe beginning December 31, 2018 and ending March 31, 2021. 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 five key areas: credit, market (including interest rate risk), liquidity, operational, and compliance. Management execution against each of these risk categories can affect strategic risk and reputation. As such, Schwab considers potential strategic risk and reputational impact across all of the aforementioned risk categories.

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 Schwab as a result of fluctuations in interest rates, equity prices, or market conditions.

Liquidity Risk: The potential that Schwab will be unable to meet cash flow obligations when they come due without incurring unacceptable losses.

Operational Risk: Operational risks arise due to potential inadequacies or failures related to people, internal processes, and systems, or from external events and relationships impacting the Company and/or any of its key business partners and third parties.

Compliance Risk: The potential exposure to 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: The risk to Schwab's ability to achieve its vision (to be the most trusted leader in investment services) and create stockholder value arising from inconsistent/insufficient strategic decisions or lack of responsiveness to external factors.

Reputational Impact: The risk 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 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, gains and losses related to investment securities, and 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 using models, qualitative assessments, and/or management judgment 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.

Beginning in 2019, CSC and CSB are required to include all components of accumulated other comprehensive income (AOCI) in calculating their regulatory capital ratios. The capital ratios in this disclosure for 2018 are being presented on a pro forma basis to include all components of AOCI in order to present capital on the same basis as 2021. See footnote 3 on page 8 for a reconciliation of actual reported 2018 capital ratios to the 2018 pro forma amounts.

E. Summary of Results

i. Scenario Summary

The severely adverse scenario is characterized by a severe global recession accompanied by a period of heightened stress in commercial real estate markets and corporate debt markets. Asset prices drop sharply in this scenario with equity prices falling 50% through the end of 2019, accompanied by a rise in the VIX, which reaches a peak of 70%. House prices and commercial real estate prices also experience large declines of about 25% and 35%, respectively.

In this scenario, the U.S. unemployment rate climbs to a peak of 10% in the third quarter of 2020. Additionally, real GDP falls about 8% from its pre-recession peak, reaching a trough in the third quarter of 2020.

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. The 10-year Treasury yield falls by a somewhat smaller amount, resulting in a mildly steeper yield curve. The 10-year Treasury yield reaches a trough of about 0.75% in the first quarter of 2019 and rises gradually thereafter to 1.5% by the first quarter of 2021. The spread between yields on investment-grade corporate bonds and yields on long-term Treasury securities widens to 5.5% by the third quarter of 2019, an increase of 3.5% relative to the fourth quarter of 2018. The spread between mortgage rates and 10-year Treasury yields widens to 3.5% over the same time period.

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

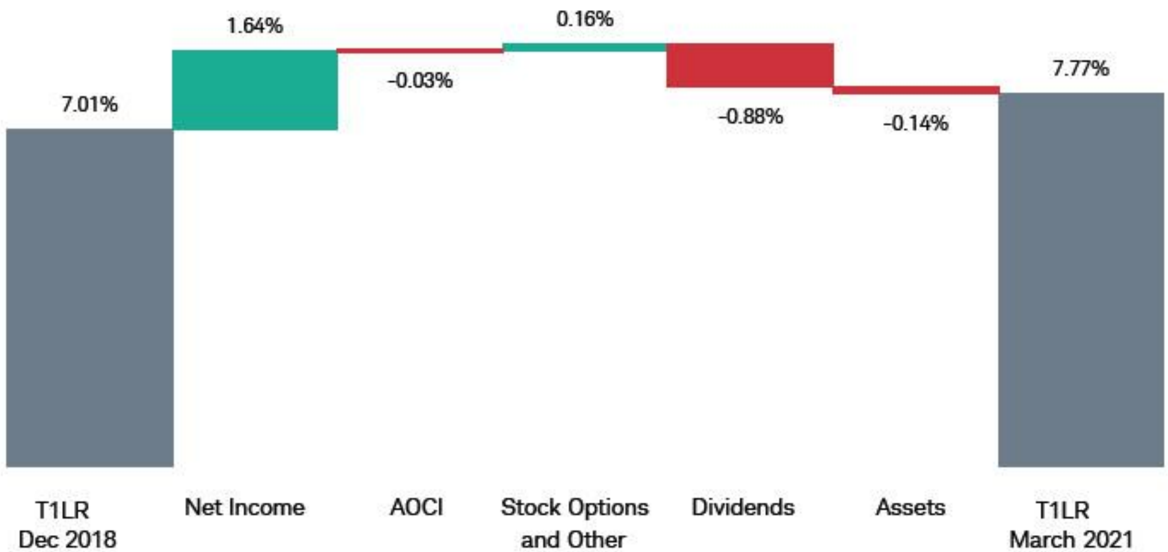
- On the Federal Reserve's website: https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20190213a1.pdf
- On the OCC's website: http://www.occ.gov/tools-forms/forms/bank-operations/stress-test-reporting.html

ii. CSC Results[1]

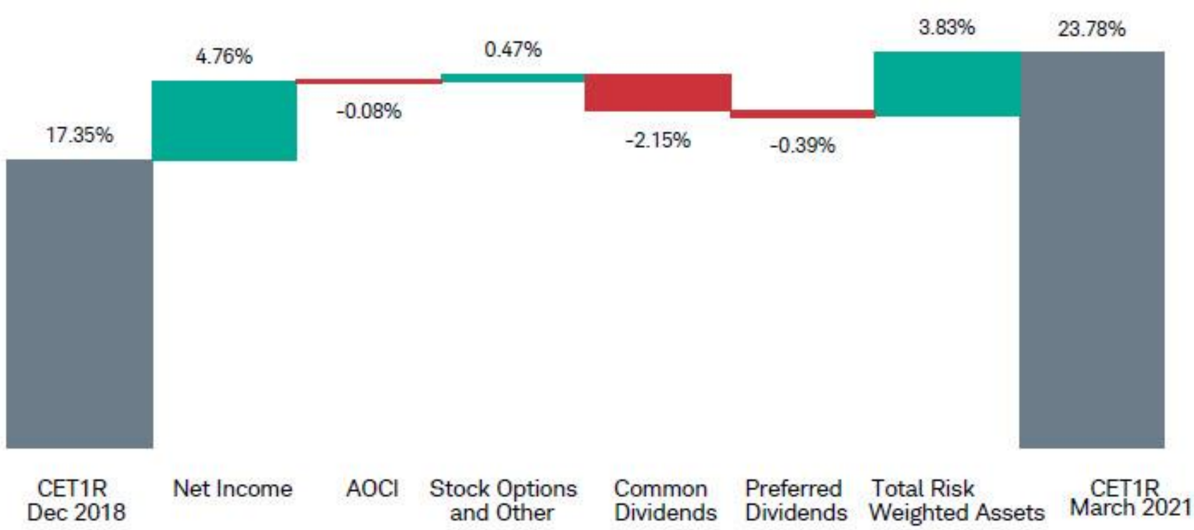
In the severely adverse scenario, CSC's capital ratios remain above regulatory-defined thresholds and internal limits throughout the forecasted nine-quarter horizon. The Company's 7.0% tier 1 leverage ratio (T1LR) at the beginning of the forecast drops in Q1 2019 to 6.3% but then recovers, ending at 7.8%. 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 of the balance sheet. The pro forma to exclude all components of AOCI common equity tier 1 capital ratio (CET1R) increased from 17.4% to 23.8% 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.

[1] The capital ratios include all components of AOCI.

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



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



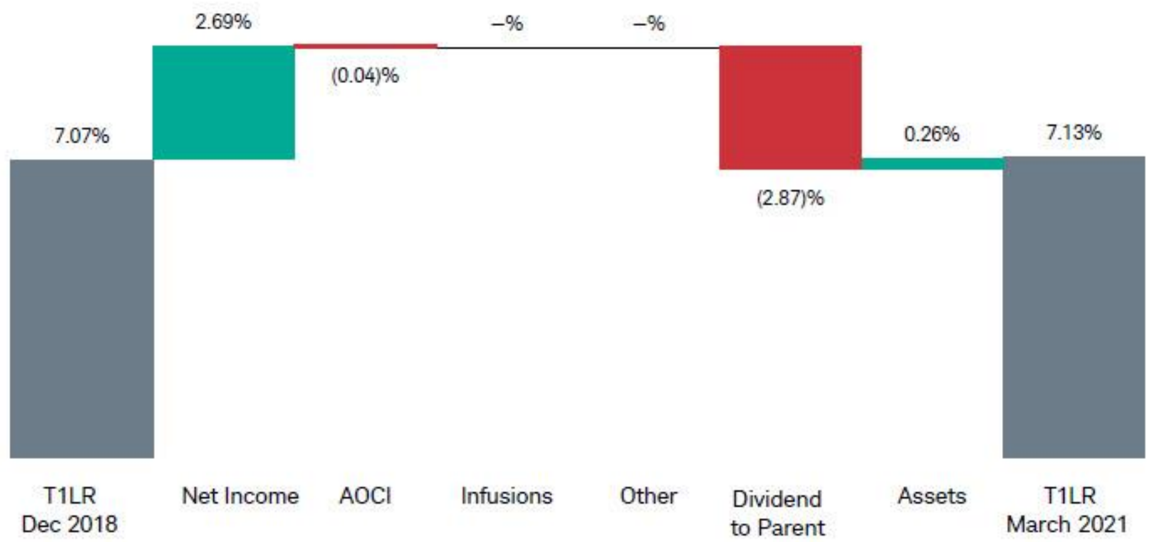
iii. CSB Results[2]

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 2019 to 6.4% but then recovers, returning to 7.1%. 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 of the balance sheet. The common equity tier 1 capital ratio increased from 19.4% to 23.7% during the nine-quarter horizon due to a change in the mix of assets to lower investment purchases and purchasing lower risk credit investments

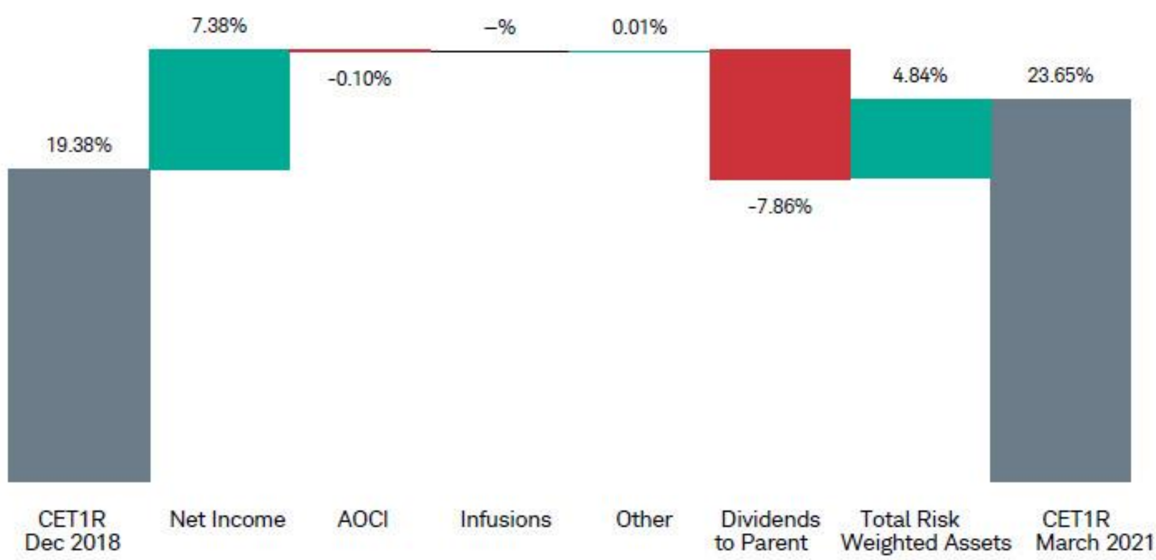
[2] The capital ratios include all components of AOCI.

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 2018, Projected Q1 2021, and Minimum Capital Ratios in the Severely Adverse Scenario[3]

	The Charles Schwab Corporation			Charles Schwab Bank		
	Pro Forma 12/31/2018	Stressed Capital Ratios		Pro Forma 12/31/2018	Stressed Capital Ratios	
		3/31/2021	Minimum[4]		3/31/2021	Minimum[4]
Common equity tier 1 capital ratio (%)	17.4%	23.8%	17.8%	19.4%	23.7%	20.2%
Tier 1 capital ratio (%)	20.3%	27.3%	21.0%	19.4%	23.7%	20.2%
Total capital ratio (%)	20.3%	27.4%	21.1%	19.4%	23.8%	20.3%
Tier 1 leverage ratio (%)	7.0%	7.8%	6.3%	7.1%	7.1%	6.4%

b) Actual Q4 2018 and Projected Q1 2021 Risk-weighted Assets in the Severely Adverse Scenario

	The Charles Schwab Corporation		Charles Schwab Bank	
	Actual 12/31/2018	Projected 3/31/2021	Actual 12/31/2018	Projected 3/31/2021
Risk-weighted assets (millions of dollars)	$95,441	$80,077	$80,513	$64,024

c) Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario, through Q1 2021

	The Charles Schwab Corporation		Charles Schwab Bank	
	Millions of dollars	Percent of average assets[5]	Millions of dollars	Percent of average assets[5]
Pre-provision net revenue[6]	$5,884	2.2%	$7,858	3.9%
Less:				
Other revenue	0	0.0%	0	0.0%
Provisions for loan and lease losses	109	< 0.1%	109	< 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	**$5,775**	**2.2%**	**$7,749**	**3.8%**

[3] All ratios in this table include all components of AOCI. A reconciliation of the pro forma amounts for 12/31/2018 to the actual reported amounts are below. Pro forma amounts include a loss of $252M for CSC and $232M for CSB in AOCI which CSC and CSB opted to exclude from the calculation of their capital ratios prior to 2019:

	The Charles Schwab Corporation			Charles Schwab Bank		
	Actual 12/31/2018	AOCI Opt Out	Pro Forma 12/31/2018	Actual 12/31/2018	AOCI Opt Out	Pro Forma 12/31/2018
Common equity tier 1 capital ratio (%)	17.6%	-0.2%	17.4%	19.7%	-0.3%	19.4%
Tier 1 capital ratio (%)	20.5%	-0.2%	20.3%	19.7%	-0.3%	19.4%
Total capital ratio (%)	20.6%	-0.3%	20.3%	19.7%	-0.3%	19.4%
Tier 1 leverage ratio (%)	7.1%	-0.1%	7.0%	7.2%	-0.1%	7.1%

[4] "Minimum" represents the lowest value over the nine-quarter forecast.
[5] "Average assets" is the nine-quarter average of total assets.
[6] 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 2021

Charles Schwab Bank and The Charles Schwab Corporation		
	Millions of dollars	Portfolio Loss Rate[7]
Loan Losses	$68	0.56%
First-lien mortgages, domestic	51	0.50%
Junior liens and HELOCs, domestic	12	0.83%
Commercial and industrial	0	0.0%
Commercial real estate, domestic	0	0.0%
Other consumer	0	0.0%
Other loan losses	4	2.05%

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, 2018, and other reports filed with the Securities and Exchange Commission, which are available at www.sec.gov.

[7] Denominator of the loss rate is based on the average of the nine quarters' balance.