The Charles Schwab Corporation

2021 Annual Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

charles SCHWAB

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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 Westlake, Texas. 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 Federal Reserve. CSC is also subject to various requirements and restrictions under federal and state laws.

B. About Capital Stress Testing

Since 2017 in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA), CSC has been required to conduct annual stress tests.

DFA stress testing requirements are implemented by the Federal Reserve through its Dodd-Frank Act Stress Testing program (DFAST). Consistent with requirements of this program, CSC submitted a regulatory filing detailing the testing methodology and pro-forma results for various hypothetical economic scenarios to the Federal Reserve in April 2021. Results in this disclosure reflect certain forecasted financial measures under the severely adverse scenario prescribed by the Federal Reserve. The results span the nine-quarter timeframe beginning December 31, 2020 and ending March 31, 2023.

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 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 sell assets or 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 or relationships impacting the Company and/or any of its key business partners and vendors.

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 the public's 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.

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 and corporate debt markets. Real GDP declines a cumulative 4.0% over the first seven quarters of the forecast, reaching a trough in Q3 2022 and recovering modestly thereafter. The unemployment rate peaks at 10.8% in Q3 2022 and CPI inflation drops to 1% by Q2 2021. Residential home prices fall 23.5% by Q4 2022 while commercial real estate prices decline 40% by Q1 2023. Equity markets fall 55% by Q3 2021, accompanied by a surge in volatility that peaks at 70 in Q1 2021.

Both the 3-month and 5-year Treasury are held flat throughout the nine quarters, at 0.1% and 0.3%, respectively. The 10-year Treasury remains at 0.3% through early 2022 and then gradually rises to 0.9% by Q1 2023. The spread between yields on investment-grade corporate bonds and yields on long-term Treasury securities widens to 5.5% by mid-2021, while 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 at:

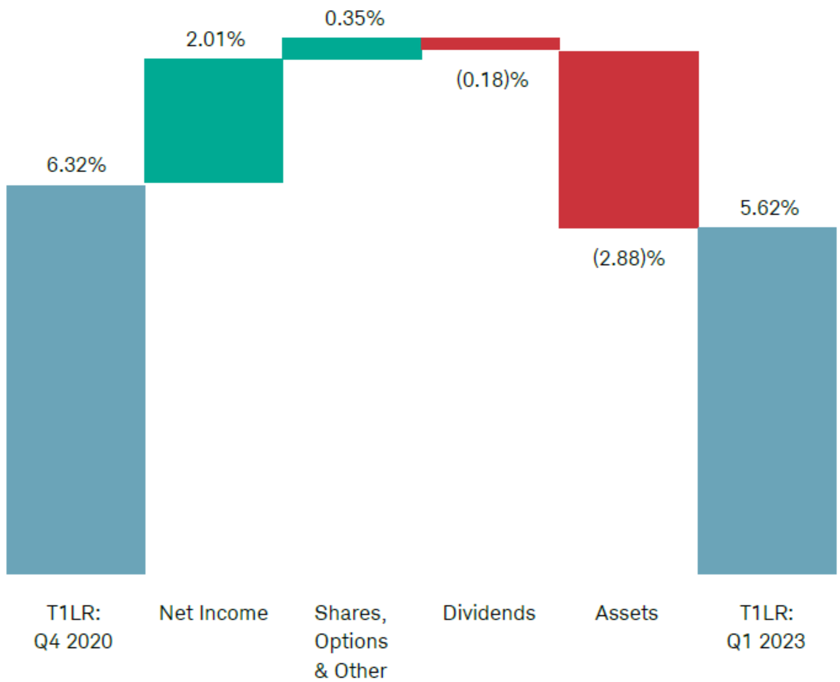
https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20210212a1.pdf

ii. CSC Results

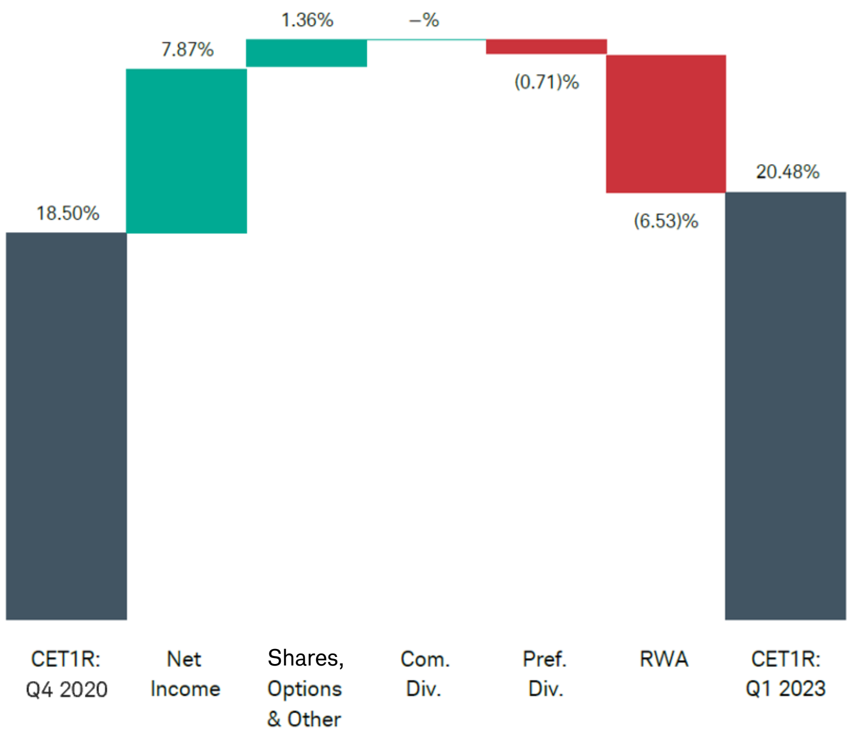
In the severely adverse scenario, CSC's capital ratios remain above regulatory-defined thresholds and risk tolerance levels throughout the forecasted nine-quarter horizon. The Company's 6.3% tier 1 leverage ratio (T1LR) at the beginning of the forecast drops to 5.8% in Q1 2021 and reaches a low point of 5.6% at the end of the forecast.

The equity decline in the severely adverse scenario reduces income and drives customer equity liquidations and cash accumulation. Net income is negatively impacted by the low rate environment and operational losses. The common equity tier 1 capital ratio (CET1R) decreases slightly from 18.5% to a low point of 17.5% in Q1 2021 and then increases to 20.5% by the end of the 20.9% forecast horizon.

Tier 1 Leverage Ratio, Severely Adverse Scenario



Common Equity Tier 1 Capital Ratio, Severely Adverse Scenario



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

a) Actual Q4 2020, Projected Q1 2023, and Minimum Capital Ratios in the Severely Adverse Scenario

	Actual 12/31/2020	Stressed Capital Ratios	
		3/31/2023	Minimum[1]
Common equity tier 1 capital ratio (%)	18.5%	20.5%	17.5%
Tier 1 capital ratio (%)	24.7%	25.2%	23.4%
Total capital ratio (%)	24.8%	25.2%	23.4%
Tier 1 leverage ratio (%)	6.3%	5.6%	5.6%

b) Actual Q4 2020 and Projected Q1 2023 Risk-weighted Assets in the Severely Adverse Scenario

	Actual 12/31/2020	Projected 3/31/2023
Risk-weighted assets (millions of dollars)	$123,881	$163,357

c) Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario, through Q1 2023

	Millions of dollars	Percent of average assets[2]
Pre-provision net revenue[3]	$12,704	1.9%
Plus:		
Provisions for loan and lease losses	(116)	< 0.1%
Trading and counterparty losses	0	0.0%
Realized gains/losses on securities (AFS and HTM)	379	< 0.1%
Other gain/loss	0	0.0%
Net Income Before Taxes	**$12,967**	**2.0%**

[1] “Minimum” represents the lowest value over the nine-quarter forecast.
[2] “Average assets” is the nine-quarter average of total assets.
[3] PPNR = net interest revenue + asset mgmt fees + trading revenue + bank deposit account revenue + other revenue – total expenses

d) Projected Loan Losses, by Type of Loan in the Severely Adverse Scenario, through Q1 2023

	Millions of dollars	Portfolio loss rate[4]
Loan Losses	$88	0.5%
First-lien mortgages, domestic	67	0.4%
Junior liens and HELOCs, domestic	9	1.8%
Commercial and industrial	0	0.0%
Commercial real estate, domestic	0	0.0%
Other consumer	0	0.0%
Other loan losses	12	5.3%

F. Forward-looking Statements

This disclosure contains forward-looking statements, including the projections of CSC'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, 2020, 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' balance.