The Charles Schwab Corporation and Charles Schwab Bank

2022 Annual Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

June 27, 2022

Submitted to the Federal Reserve on April 5, 2022

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 (SLHC), 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 Board of Governors of the Federal Reserve System (Federal Reserve). CSC also is subject to various requirements and restrictions under federal and state laws.

As a Category III SLHC, CSC is required to comply with the Company-Run Stress Testing, Supervisory Stress Testing, and Capital Planning and Stress Capital Buffer Requirements for Savings and Loan Holding Companies starting in 2022 (12 C.F.R. §238 Subparts O, P and S).

Charles Schwab Bank, SSB (Schwab Bank or CSB), a state savings bank, is a wholly-owned subsidiary of CSC and is subject to Enhanced Prudential Standards (Regulation YY): Company-Run Stress Test Requirements for State Member Banks with total consolidated assets over $250B (12 C.F.R. §252, Subpart B) starting in 2022, as its average total consolidated assets were greater than $250B over a four-quarter period as of Q4 2020.

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 2022. Results in this disclosure reflect certain forecasted financial measures under the supervisory severely adverse scenario prescribed by the Federal Reserve. The results span the nine-quarter timeframe beginning December 31, 2021 and ending March 31, 2024.

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 of 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 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 of possible damage to Schwab's brand arising from any association, action or inaction which could be perceived to be inappropriate, unethical or inconsistent with Schwab's values and beliefs.

D. Discussion of Methodologies Included in Stress Testing

Schwab uses models and estimation techniques to translate the economic and financial variables in the supervisory severely adverse scenario in order to project pre-provision net revenue (PPNR), the provision for loan and lease losses, and losses related to investment securities, and income before taxes.

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 and lease losses using models, qualitative assessments, 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 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.

The capital action assumptions in the supervisory severely adverse scenario are prescribed by the Federal Reserve. In this scenario, we do not: pay dividends on any instruments that qualify as common equity tier 1 capital, redeem or repurchase any capital instruments that are eligible for inclusion in the numerator of a regulatory capital ratio, nor do we issue common stock or preferred stock. We are allowed to make payments on instruments that qualify as additional tier 1 capital or tier 2 capital. The main change from the prior year's disclosure are the prescribed capital action assumptions.

E. Summary of Results

i. Scenario Summary

The supervisory severely adverse scenario is characterized by a severe global recession accompanied by a period of heightened stress in real estate and corporate debt markets. Real GDP declines by more than 3.5% over the first five quarters of the forecast, reaching a trough in Q1 2023 and recovering modestly thereafter. The unemployment rate peaks at 10.0% in Q3 2023 and CPI inflation drops to about 1.25% by Q3 2022. Residential home prices fall 28.6% by Q4 2023 while commercial real estate prices decline 39.6% over the same period. Equity markets contract 55% by Q4 2022, accompanied by a surge in volatility that peaks at 75% in Q2 2022.

The 3-month Treasury yield is held flat near zero through the nine quarters. The 10-year Treasury yield drops to 0.75% in Q1 2022 and increases to 1.5% by Q1 2024. The spread between yields on investment-grade corporate bonds and on long-term Treasury securities widens from 1.1% in Q4 2021 to 5.75% by mid-2022, while the spread between the mortgage rate and 10-year Treasury yield widens from 1.5% in Q4 2021 to 3.0% in the second half of 2022 before declining to slightly above 1.5% by Q1 2024.

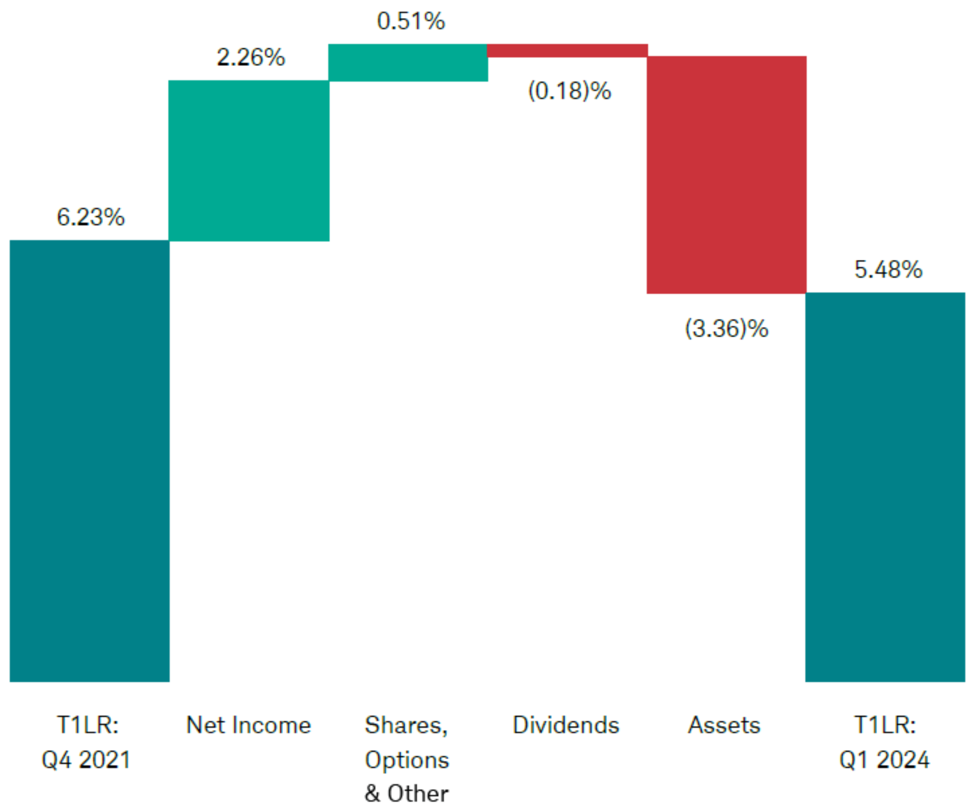
A complete description of the supervisory severely adverse scenario can be found at:

https://www.federalreserve.gov/publications/2022-Stress-Test-Scenarios.htm

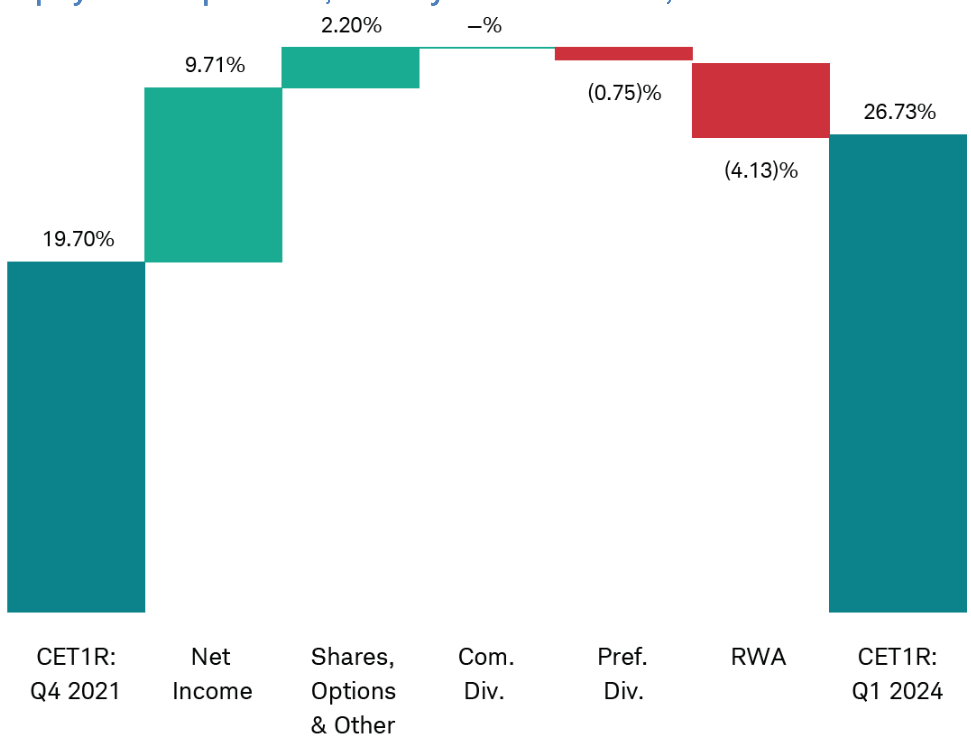
ii. CSC Results

In the supervisory severely adverse scenario, CSC's capital ratios remain above regulatory-defined thresholds throughout the forecasted nine-quarter horizon. The Company's 6.23% tier 1 leverage ratio (T1LR) at the beginning of the forecast declines throughout the forecast, ending above the regulatory minimum at 5.48%. The equity decline in this 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 impact of this lower net income to capital is slightly offset by the limitations on capital actions. The common equity tier 1 capital ratio (CET1R) increased from 19.70% to 26.73% during the nine-quarter horizon due to a change in the mix of assets toward those of higher credit quality as a result of the described scenario economic conditions. This resulted in a decrease in risk weighted assets. This ratio also increased as there are no capital actions allowed other than payments on additional tier 1 or 2 capital.

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



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

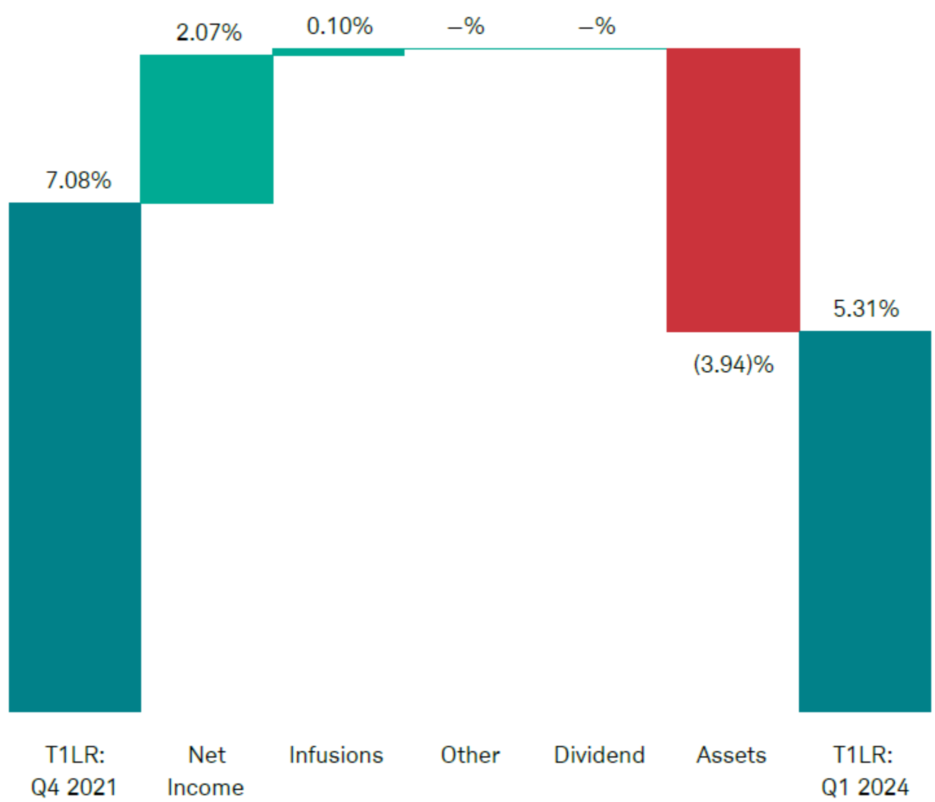


Note: Numbers may not sum due to rounding

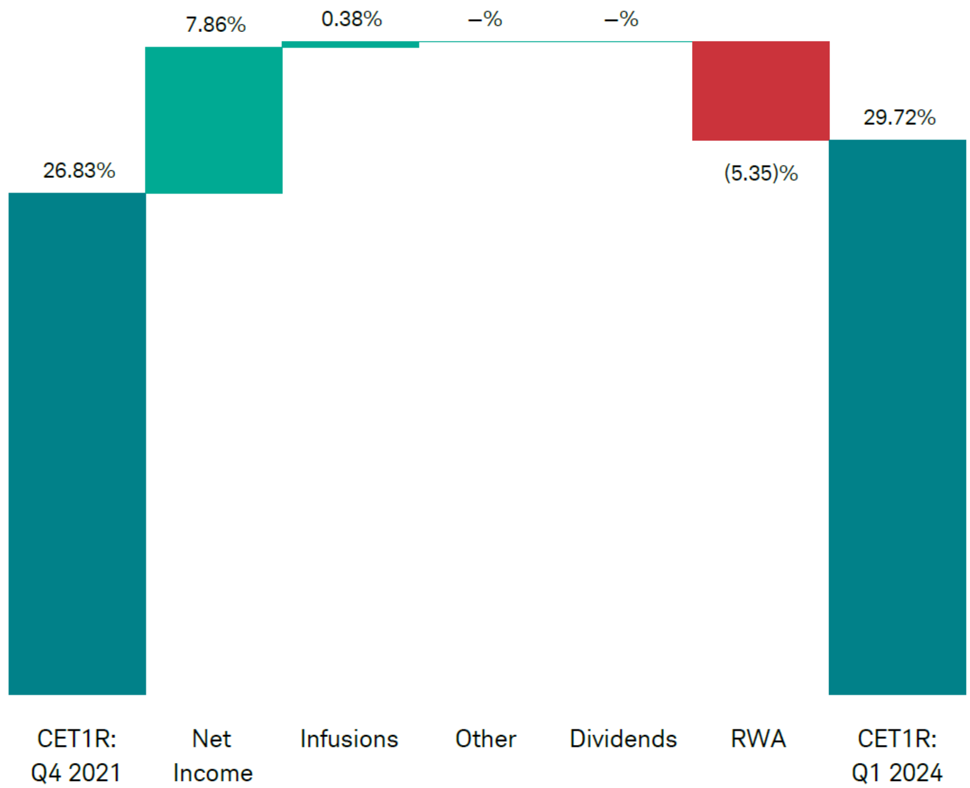
iii. CSB Results

In the severely adverse scenario, CSB's capital ratios remain above regulatory-defined well-capitalized thresholds throughout the forecasted nine-quarter horizon. CSB's 7.08% tier 1 leverage ratio at the beginning of the forecast drops in Q1 2022 to 6.57% and continues to decline throughout the forecast, ending above the regulatory minimum at 5.31%. As noted for CSC, the equity decline in this scenario reduces income and drives customer equity liquidations and cash accumulation. The common equity tier 1 capital ratio increased from 26.83% to 29.72% during the nine-quarter horizon due to a change in the mix of assets toward those of higher credit quality as a result of the described scenario economic conditions. This resulted in a decrease in risk weighted assets.

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 2021, Projected Q1 2024, and Minimum Capital Ratios in the Severely Adverse Scenario*

	Regulatory Minimum[1]	Actual 12/31/2021	Stressed Capital Ratios	
			3/31/2024	Minimum[2]
The Charles Schwab Corporation				
Common equity tier 1 capital ratio (%)	4.50%	19.70%	26.73%	21.48%
Tier 1 capital ratio (%)	6.00%	26.71%	32.80%	28.62%
Total capital ratio (%)	8.00%	26.73%	32.82%	28.64%
Tier 1 leverage ratio (%)	4.00%	6.23%	5.48%	5.48%
Charles Schwab Bank				
Common equity tier 1 capital ratio (%)	4.50%	26.83%	29.72%	26.99%
Tier 1 capital ratio (%)	6.00%	26.83%	29.72%	26.99%
Total capital ratio (%)	8.00%	26.85%	29.74%	27.00%
Tier 1 leverage ratio (%)	4.00%	7.08%	5.31%	5.31%

[1] Under the Basel III capital rule, CSC and CSB are also required to maintain a capital conservation buffer and a countercyclical capital buffer above the regulatory minimum risk-based capital ratios. The capital conservation buffer and countercyclical buffer were 2.5% and zero percent, respectively, as of December 31, 2021. At December 31, 2021, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for the common equity tier 1 capital, tier 1 capital, and total capital ratios were 7.0%, 8.5%, and 10.5%, respectively.

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

b) Actual Q4 2021 and Projected Q1 2024 Risk-weighted Assets in the Severely Adverse Scenario

	The Charles Schwab Corporation		Charles Schwab Bank	
	Actual 12/31/2021	Projected 3/31/2024	Actual 12/31/2021	Projected 3/31/2024
Risk-weighted assets (millions of dollars)	$141,969	$163,915	$104,409	$123,191

c) Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario, through Q1 2024

	The Charles Schwab Corporation		Charles Schwab Bank	
	Millions of dollars	Percent of average assets[3]	Millions of dollars	Percent of average assets[3]
Pre-provision net revenue[4]	$18,759	2.1%	$10,876	1.9%
Plus:				
Provisions for loan and lease losses	(148)	< 0.1%	(148)	< 0.1%
Realized gains/losses on securities (AFS)	(158)	< 0.1%	(17)	< 0.1%
Trading and counterparty losses	–		–	
Other gain/loss	–		–	
Net Income Before Taxes	**$18,453**	**2.1%**	**$10,711**	**1.8%**

[3] “Average assets” is the nine-quarter average of total assets.
[4] 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 2024

The Charles Schwab Corporation and Charles Schwab Bank		
	Millions of dollars	Portfolio Loss Rate[5]
Loan Losses	$86	0.3%
First-lien mortgages, domestic	67	0.3%
Junior liens and HELOCs, domestic	6	1.2%
Commercial and industrial	–	
Commercial real estate, domestic	–	
Other consumer	–	
Other loan losses	13	5.3%

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, 2021, and other reports filed with the Securities and Exchange Commission, which are available at www.sec.gov.

Due to potential differences in methodologies and assumptions, outputs based on the information contained in this disclosure might differ from similar analyses from the Federal Reserve or other financial institutions. The results shown here also might not be comparable to prior stress test results conducted by Schwab, the Federal Reserve, or other financial institutions, due to an evolving regulatory framework, developing macroeconomic and market environments, or other factors.

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