

The Charles Schwab
Corporation and Charles
Schwab Bank

2024 Annual Dodd-Frank
Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

June 28, 2024

Submitted to the Federal Reserve on April 5, 2024

The logo for Charles Schwab, featuring the word "charles" in a white, lowercase, serif font above the word "SCHWAB" in a white, uppercase, sans-serif font, all contained within a blue square.

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 (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 (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).

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 2024. 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, 2023 and ending March 31, 2026.

C. Discussion of Risks Included in Stress Testing

The Company leverages 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 risk of loss due to a borrower, counterparty, or issuer failing to perform its contractual obligations.

Market Risk: The risk 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 risk 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 of loss resulting from 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 risk of 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 of material impact to current or projected financial condition and resilience arising from adverse strategic decisions, poor implementation of strategic decisions, or lack of responsiveness to changes in external factors (macroeconomic and regulatory environment, industry trends, and competitive landscape).

Reputation Risk: 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 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, and management 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.

E. Summary of Results

i. Scenario Summary

The 2024 severely adverse scenario is characterized by a severe global recession, with prolonged declines in both residential and commercial real estate prices, which spill over into the corporate sector and affect investment sentiment. Real GDP declines a cumulative 8.5% over the first five quarters of the scenario, reaching a trough in Q1 2025 and recovering modestly thereafter. The unemployment rate peaks at 10.0% in Q3 2025. CPI inflation drops to an annualized 1.3% by Q3 2024. Conditions in real estate markets deteriorate markedly. Residential home prices fall 36% by Q3 2025 while commercial real estate prices decline 40% through Q4 2025. Equity markets fall 55% by Q4 2024, accompanied by a surge in volatility that peaks at 70 in Q2 2024.

The 3-month U.S. Treasury rate declines through Q3 2024 and thereafter is held flat at 0.1%. The 5-year U.S. Treasury yield drops to 0.3% over the first 2 quarters and thereafter increases to 0.8% by Q1 2026. The 10-year U.S. Treasury yield drops to 0.8% in Q2 2024 and begins gradually increasing in Q1 2025, reaching to 1.3% by Q1 2026. The spread between the mortgage rate and 10-year U.S. Treasury yield widens from 2.8% in Q4 2023 to 3.0% in the second half of 2024, while the spread between yields on investment-grade corporate bonds and yields on long-term U.S. Treasury securities widens from 1.7% in Q4 2023 to 5.8% in Q4 2024.

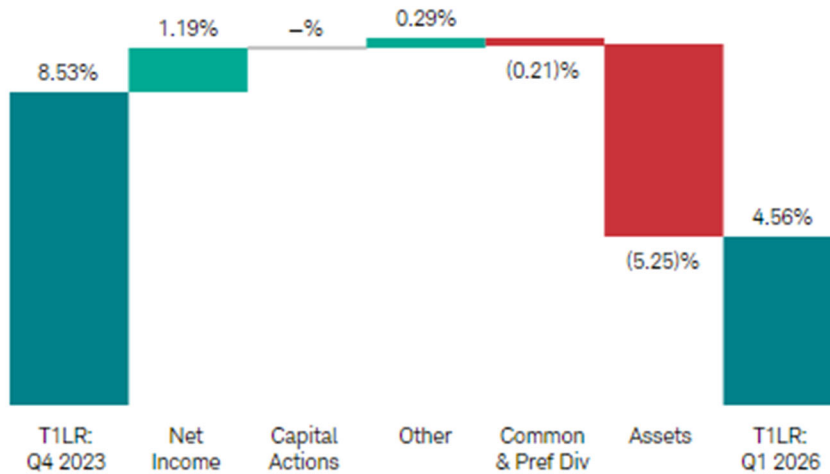
A complete description of the supervisory severely adverse scenario can be found at:

<https://www.federalreserve.gov/publications/2024-Stress-Test-Scenarios.htm>

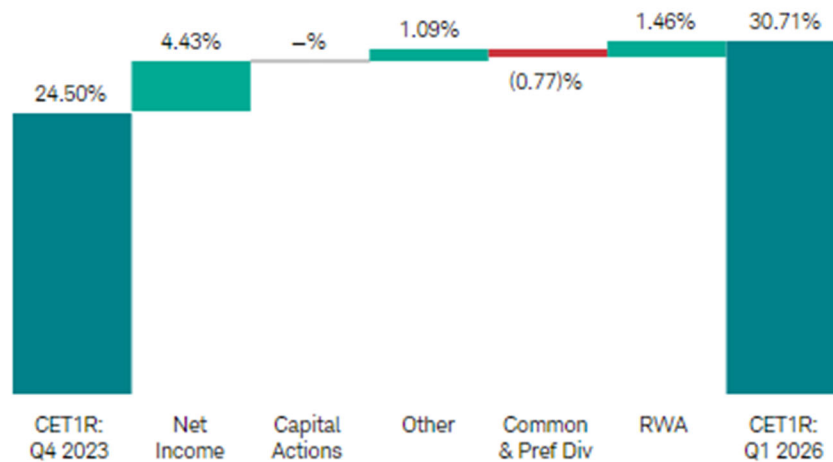
ii. CSC Results

In the supervisory severely adverse scenario, CSC's capital ratios remain above regulatory-defined thresholds throughout the forecasted nine-quarter horizon. The Company's 8.53% tier 1 leverage ratio (T1LR) at the beginning of the forecast declines through Q1 2025 when it reaches a low of 4.51% before rising slightly, ending above the regulatory minimum at 4.56%. The stock market decline in this scenario reduces income and drives customer equity liquidations and cash accumulation. The common equity tier 1 capital ratio (CET1R) increased from 24.50% to 30.71% 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. The result was a decrease in risk weighted assets and an increase in the CET1R because capital actions other than payments on additional tier 1 or 2 capital are not permitted.

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



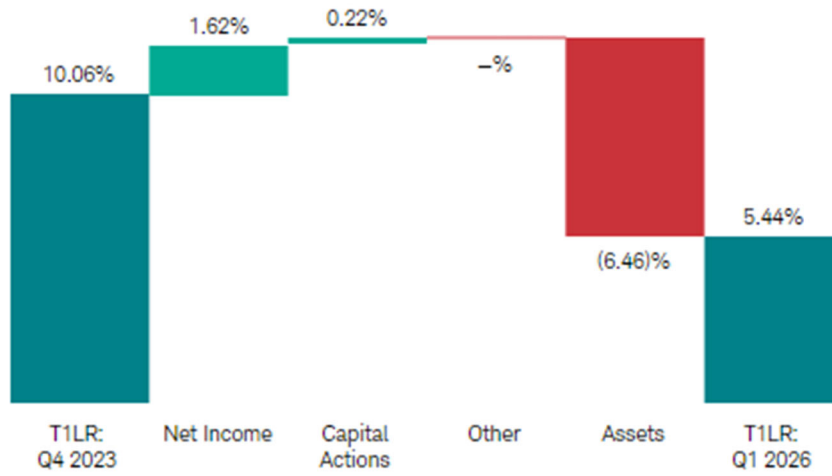
Common Equity Tier 1 Capital Ratio, Severely Adverse Scenario, The Charles Schwab Corporation



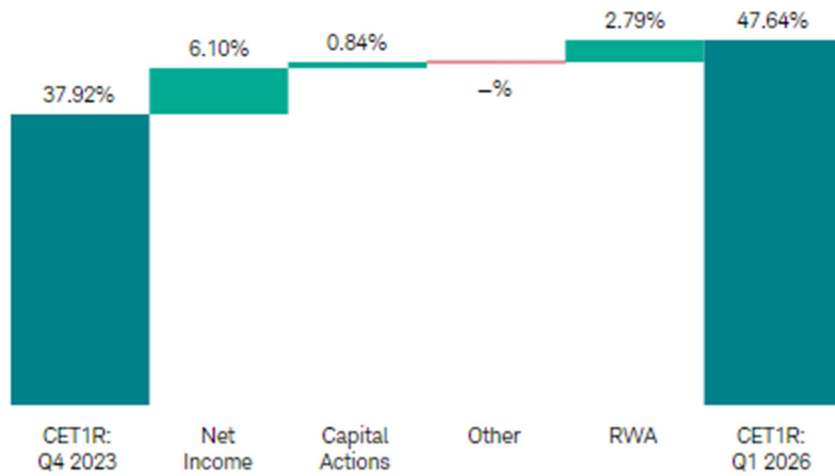
iii. CSB Results

In the severely adverse scenario, CSB’s capital ratios remain above regulatory-defined well-capitalized thresholds throughout the forecasted nine-quarter horizon. CSB’s 10.06% tier 1 leverage ratio at the beginning of the forecast declines through Q4 2024 when it reaches a low of 5.29% before rising slightly, ending above the regulatory minimum at 5.44%. As noted for CSC, the stock market decline in this scenario reduces income and drives customer equity liquidations and cash accumulation. The common equity tier 1 capital ratio increased from 37.92% to 47.64% 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 2023, Projected Q1 2026, and Minimum Capital Ratios in the Severely Adverse Scenario*

	Regulatory Minimum ¹	Actual 12/31/2023	Stressed Capital Ratios	
			3/31/2026	Minimum ²
The Charles Schwab Corporation				
Common equity tier 1 capital ratio (%)	7.00%	24.50%	30.71%	26.52%
Tier 1 capital ratio (%)	8.50%	31.66%	38.24%	33.98%
Total capital ratio (%)	10.50%	31.70%	38.27%	34.01%
Tier 1 leverage ratio (%)	4.00%	8.53%	4.56%	4.51%
Charles Schwab Bank				
Common equity tier 1 capital ratio (%)	7.00%	37.92%	47.64%	38.89%
Tier 1 capital ratio (%)	8.50%	37.92%	47.64%	38.89%
Total capital ratio (%)	10.50%	37.96%	47.69%	38.94%
Tier 1 leverage ratio (%)	5.00%	10.06%	5.44%	5.29%

b) *Actual Q4 2023 and Projected Q1 2026 Risk-weighted Assets in the Severely Adverse Scenario*

	The Charles Schwab Corporation		Charles Schwab Bank	
	Actual 12/31/2023	Projected 3/31/2026	Actual 12/31/2023	Projected 3/31/2026
Risk-weighted assets (millions of dollars)	\$128,230	\$122,130	\$83,809	\$78,898

c) *Projected Losses, Revenues, Net Income, and Other Comprehensive Income in the Severely Adverse Scenario, through Q1 2026*

	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	\$7,558	0.8%	\$6,833	1.1%
Plus:				
Provisions for loan and lease losses	(147)	< 0.1%	(147)	< 0.1%
Realized gains/losses on securities (AFS)	111	< 0.1%	3	< 0.1%
Trading and counterparty losses	–		–	
Other gain/loss	–		–	
Net Income Before Taxes	\$7,522	0.8%	\$6,689	1.1%

¹ These minimums are inclusive of additional capital buffers above the regulatory minimum risk-based capital ratios. As of December 31, 2023, CSC was subject to a stress capital buffer of 2.5%. In addition, CSB is required to maintain a capital conservation buffer of 2.5%. CSC and CSB are also required to maintain a countercyclical capital buffer above the regulatory minimum risk-based capital ratios, which was zero for both periods presented.

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

³ "Average assets" is the nine-quarter average of total assets.

⁴ PPNR includes net interest revenue, asset management and administration fees, trading revenue, bank deposit account fees, and other revenue, less total expenses excluding interest.

d) *Projected Loan Losses, by Type of Loan in the Severely Adverse Scenario, through Q1 2026*

The Charles Schwab Corporation and Charles Schwab Bank		
	Millions of dollars	Portfolio Loss Rate ⁵
Loan Losses	\$47	0.2%
First-lien mortgages, domestic	29	0.1%
Junior liens and HELOCs, domestic	1	0.3%
Commercial and industrial	–	
Commercial real estate, domestic	–	
Other consumer	–	
Other loan losses ⁶	17	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, 2023, 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.

⁶ Represents projected losses on Community Reinvestment Act loans.