



CORPORATION

# **Basel III Regulatory Capital Disclosures**

**December 31, 2019**

# Table of Contents

|   |    |
|---|----|
| Introduction  | 1  |
| Overview  | 1  |
| Current Regulatory Environment and Other Developments | 1  |
| Disclosure Matrix                                     | 3  |
| Components of Capital                                 | 10 |
| Capital Adequacy – Standardized Risk-Weighted Assets  | 10 |
| Capital Adequacy – Capital Ratios                     | 11 |
| Credit Risk   | 11 |
| Securitizations                                       | 13 |
| Equities not Subject to the Market Risk Capital Rule  | 14 |
| Supplementary Leverage Ratio                          | 15 |

## **INTRODUCTION**

The Charles Schwab Corporation (CSC) is a savings and loan holding company engaged, through its subsidiaries (collectively referred to as Schwab or the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services.

Principal business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), a securities broker-dealer;
- Charles Schwab Bank (Schwab Bank), Schwab's principal banking entity; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds<sup>®</sup>), and Schwab's exchange-traded funds (Schwab ETFs<sup>™</sup>).

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services.

The basis of consolidation that CSC uses for regulatory reporting is consistent with the basis used for reporting under generally accepted accounting principles in the U.S. (U.S. GAAP) as established by the Financial Accounting Standards Board.

## **OVERVIEW**

This document, and certain of Schwab's public filings, present the regulatory capital disclosures in compliance with Basel III as set forth in 12 C.F.R. §217.63 - Disclosures by Board-regulated institutions and 12 C.F.R. § 217.173 (c) (collectively referred to as the Rules). Schwab's Annual Report on 2019 Form 10-K for the fiscal year ended December 31, 2019 (2019 Form 10-K) filed with the Securities and Exchange Commission (SEC) contain management's discussion of the overall corporate risk profile of Schwab and related management strategies. These Basel III Regulatory Capital Disclosures should be read in conjunction with the 2019 Form 10-K, the Consolidated Financial Statements for Bank Holding Companies dated December 31, 2019 (FR Y-9C), the Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101) and the Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices for the period ended December 31, 2019 (FFIEC 031). Schwab's Disclosure Matrix (see pages 3-9) specifies where the disclosures required by the Rules are located.

## **CURRENT REGULATORY ENVIRONMENT AND OTHER DEVELOPMENTS**

During 2019, depository institutions and their holding companies with consolidated total assets of \$250 billion or more, or total on-balance-sheet foreign exposure of \$10 billion or more, were required to calculate their regulatory capital and risk-weighted assets using both a "standardized approach" and an "advanced approaches" framework and to satisfy the minimum capital requirements under both approaches. Such companies were also required to maintain a minimum supplementary leverage ratio of at least 3.0%, include accumulated other comprehensive income (AOCI) in their calculation of their capital ratios, were subject to an incremental capital buffer of up to 2.5% of common equity Tier 1 capital if imposed by the banking agencies, referred to as the countercyclical capital buffer, and were subject to certain other enhanced provisions, including additional reporting requirements. The Federal Reserve, OCC, and FDIC all granted extensions and exemptions to CSC and its banking subsidiaries such that they would not be subject to the advanced approaches framework until June 30, 2020. As a result of crossing the \$250 billion threshold in 2018, CSC and its banking subsidiaries in 2019 became subject to all other advanced approaches requirements – the supplementary leverage ratio, the inclusion of AOCI in the calculation of capital ratios, and the countercyclical capital buffer.

In October 2019, the Federal Reserve, OCC, and FDIC jointly adopted a final rule which became effective on December 31, 2019 (interagency regulatory capital and liquidity rules) that revised the regulatory capital and liquidity requirements for large U.S. banking organizations with \$100 billion or more in total consolidated assets. The rules established four risk-based categories for determining the regulatory capital and liquidity requirements applicable to these institutions based on their total assets, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. CSC is subject to the requirements under Category III based on its total consolidated assets of between \$250 billion and less than \$700 billion and having less than \$75 billion in cross-jurisdictional activity.

Capital requirements for Category III banking organizations include the generally applicable risk-based capital and Tier 1 Leverage Ratio requirements (the "standardized approach" framework), the minimum 3.0% supplementary leverage ratio, and the countercyclical capital buffer which is currently 0%. Category III organizations are no longer subject to the "advanced

approaches” regulatory capital framework and are permitted to opt out of including AOCI in their regulatory capital calculations. CSC made this opt out election, and commencing with the first quarter of 2020, now excludes AOCI from its regulatory capital.

Following are links to the referenced public filings:

| <b>Filing</b>   | <b>Link to Filing</b>  |
|---|--|
| 2019 Form 10-K  | <a href="https://www.sec.gov/Archives/edgar/data/316709/000031670920000012/schw-12312019x10k.htm">https://www.sec.gov/Archives/edgar/data/316709/000031670920000012/schw-12312019x10k.htm</a>  |
| Consolidated Financial Statements for Bank Holding Companies – FR Y-9C dated December 31, 2019  | <a href="https://www.ffiec.gov/npw/Institution/Profile/1026632?dt=20180725">https://www.ffiec.gov/npw/Institution/Profile/1026632?dt=20180725</a><br>Note search terms below:<br>Report = Consolidated Financial Statements for BHCs (FR Y-9C)<br>Report Date = 12/31/2019   |
| Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework – FFIEC 101 dated December 31, 2019          | <a href="https://www.ffiec.gov/npw/Institution/Profile/1026632?dt=20180725">https://www.ffiec.gov/npw/Institution/Profile/1026632?dt=20180725</a><br>Note search terms below:<br>Report = Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101)<br>Report Date = 12/31/2019 |
| Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices – FFIEC 031 for the quarter ended December 31, 2019 | <a href="https://cdr.ffiec.gov/public/ManageFacsimiles.aspx">https://cdr.ffiec.gov/public/ManageFacsimiles.aspx</a><br>Note search terms below:<br>Report = Call<br>Report Date = 12/31/2019<br>Institution Name = Charles Schwab Bank   |
| Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices – FFIEC 031 for the quarter ended December 31, 2019 | <a href="https://cdr.ffiec.gov/public/ManageFacsimiles.aspx">https://cdr.ffiec.gov/public/ManageFacsimiles.aspx</a><br>Note search terms below:<br>Report = Call<br>Report Date = 12/31/2019<br>Institution Name = Charles Schwab Premier Bank   |
| Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices – FFIEC 031 for the quarter ended December 31, 2019 | <a href="https://cdr.ffiec.gov/public/ManageFacsimiles.aspx">https://cdr.ffiec.gov/public/ManageFacsimiles.aspx</a><br>Note search terms below:<br>Report = Call<br>Report Date = 12/31/2019<br>Institution Name = Charles Schwab Trust Bank   |

## DISCLOSURE MATRIX

| Table                                 | Disclosure Requirement  | Disclosure Location  | Disclosure Page | Source Reference - if applicable   |
|---------------------------------------|---|--|-----------------|--|
| <b>Scope of Application (Table 1)</b> |   |  |                 |  |
| Qualitative:<br>(a)                   | The name of the top corporate entity in the group to which subpart D of this part applies.  | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Introduction  | Pg. 1           |  |
| (b)                                   | A brief description of the differences in the basis for consolidating entities for accounting and regulatory purposes, with a description of those entities:<br>(1) That are fully consolidated;<br>(2) That are deconsolidated and deducted from total capital;<br>(3) For which the total capital requirement is deducted; and<br>(4) That are neither consolidated nor deducted (for example, where the investment in the entity is assigned a risk weight in accordance with this subpart). | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Introduction  | Pg. 1           |  |
| (c)                                   | Any restrictions, or other major impediments, on transfer of funds or total capital within the group.   | <u><b>2019 Form 10-K</b></u><br>MD&A – Capital Management<br>Note 21 – Regulatory Requirements   |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 50-53<br>Pg. 104-106                   |
| (d)                                   | The aggregate amount of surplus capital of insurance subsidiaries included in the total capital of the consolidated group.  | Not applicable. The Company does not have any insurance subsidiaries.  |                 |  |
| (e)                                   | The aggregate amount by which actual total capital is less than the minimum total capital requirement in all subsidiaries, with total capital requirements and the name(s) of the subsidiaries with such deficiencies.  | Not applicable. The Company does not have any subsidiaries with total capital requirements where total capital is less than the minimum requirement.   |                 |  |
| <b>Capital Structure (Table 2)</b>    |   |  |                 |  |
| Qualitative:<br>(a)                   | Summary information on the terms and conditions of the main features of all regulatory capital instruments.   | <u><b>2019 Form 10-K</b></u><br>MD&A – Capital Management<br>Consolidated Balance Sheets<br>Note 17 – Stockholders’ Equity   |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 50-53<br>Pg. 59<br>Pg. 97-98           |
| Quantitative:<br>(b)                  | The amount of common equity tier 1 capital, with separate disclosure of:<br>(1) Common stock and related surplus;<br>(2) Retained earnings;<br>(3) Common equity minority interest;<br>(4) Accumulated other comprehensive income (AOCI); and<br>(5) Regulatory adjustments and deductions made to common equity tier 1 capital.  | <u><b>FR Y-9C</b></u><br>Schedule HC-R – Regulatory Capital<br><u><b>FFIEC 031</b></u><br>Schedule RC-R – Regulatory Capital   |                 | <u><b>FR Y-9C</b></u><br>Pg. 50-51<br><u><b>FFIEC 031</b></u><br>Pg. 64-65 |
| (c)                                   | The amount of tier 1 capital, with separate disclosure of:<br>(1) Additional tier 1 capital elements, including additional tier 1 capital instruments and tier 1 minority interest not included in common equity tier 1 capital; and<br>(2) Regulatory adjustments and deductions made to tier 1 capital.   | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Components of Capital<br><u><b>FR Y-9C</b></u><br>Schedule HC-R – Regulatory Capital<br><u><b>FFIEC 031</b></u><br>Schedule RC-R – Regulatory Capital | Pg. 10          | <u><b>FR Y-9C</b></u><br>Pg. 50-51<br><u><b>FFIEC 031</b></u><br>Pg. 64-65 |
| (d)                                   | The amount of total capital, with separate disclosure of:<br>(1) Tier 2 capital elements, including tier 2 capital instruments and total capital minority interest not included in tier 1 capital; and<br>(2) Regulatory adjustments and deductions made to total capital.  | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Components of Capital<br><u><b>FR Y-9C</b></u><br>Schedule HC-R – Regulatory Capital<br><u><b>FFIEC 031</b></u><br>Schedule RC-R – Regulatory Capital | Pg. 10          | <u><b>FR Y-9C</b></u><br>Pg. 51-52<br><u><b>FFIEC 031</b></u><br>Pg. 65-66 |

| Table  | Disclosure Requirement  | Disclosure Location   | Disclosure Page | Source Reference - if applicable                               |
|--|---|---|-----------------|--|
| <b>Capital Adequacy (Table 3)</b>            |   |   |                 |  |
| Qualitative:<br>(a)                          | A summary discussion of the Board-regulated institution's approach to assessing the adequacy of its capital to support current and future activities.   | <u>2019 Form 10-K</u><br>MD&A – Capital Management  |                 | <u>2019 Form 10-K</u><br>Pg. 50-53                             |
| Quantitative:<br>(b)                         | Risk-weighted assets for:<br>(1) Exposures to sovereign entities;<br>(2) Exposures to certain supranational entities and MDBs;<br>(3) Exposures to depository institutions, foreign banks, and credit unions;<br>(4) Exposures to PSEs;<br>(5) Corporate exposures;<br>(6) Residential mortgage exposures;<br>(7) Statutory multifamily mortgages and pre-sold construction loans;<br>(8) HVCRE loans;<br>(9) Past due loans;<br>(10) Other assets;<br>(11) Cleared transactions;<br>(12) Default fund contributions;<br>(13) Unsettled transactions;<br>(14) Securitization exposures; and<br>(15) Equity exposures. | <u>Basel III Regulatory Capital Disclosures:</u><br>Capital Adequacy  | Pg. 10          |  |
| (c)  | Standardized market risk-weighted assets as calculated under subpart F of this part.  | Not applicable. CSC is not subject to the Market Risk Capital Rule.   |                 |  |
| (d)  | Common equity tier 1, tier 1 and total risk-based capital ratios:<br>(1) For the top consolidated group; and<br>(2) For each depository institution subsidiary.   | <u>Basel III Regulatory Capital Disclosures:</u><br>Capital Adequacy<br><u>FR Y-9C</u><br>Schedule HC-R – Regulatory Capital<br><u>FFIEC 031*</u><br>Schedule RC-R Part I – Regulatory Capital    | Pg. 11          | <u>FR Y-9C</u><br>Pg. 52<br><u>FFIEC 031*</u><br>Pg. 66        |
| (e)  | Total standardized risk-weighted assets.  | <u>Basel III Regulatory Capital Disclosures:</u><br>Capital Adequacy<br><u>FR Y-9C</u><br>Schedule HC-R – Regulatory Capital<br><u>FFIEC 031</u><br>Schedule RC-R Part I & II– Regulatory Capital | Pg. 10          | <u>FR Y-9C</u><br>Pg. 52, 65<br><u>FFIEC 031</u><br>Pg. 66, 80 |
| <b>Capital Conservation Buffer (Table 4)</b> |   |   |                 |  |
| Quantitative:<br>(a)                         | At least quarterly, the Board-regulated institution must calculate and publicly disclose the capital conservation buffer as described under § 217.11.   | <u>FR Y-9C</u><br>Schedule HC-R – Regulatory Capital<br><u>FFIEC 031</u><br>Schedule RC-R Part I – Regulatory Capital   |                 | <u>FR Y-9C</u><br>Pg. 53<br><u>FFIEC 031</u><br>Pg. 67         |
| (b)  | At least quarterly, the Board-regulated institution must calculate and publicly disclose the eligible retained income of the Board-regulated institution, as described under § 217.11.  | <u>FR Y-9C</u><br>Schedule HC-R – Regulatory Capital<br><u>FFIEC 031</u><br>Schedule RC-R Part I – Regulatory Capital   |                 | <u>FR Y-9C</u><br>Pg. 53<br><u>FFIEC 031</u><br>Pg. 67         |
| (c)  | At least quarterly, the Board-regulated institution must calculate and publicly disclose any limitations it has on distributions and discretionary bonus payments resulting from the capital conservation buffer framework described under § 217.11, including the maximum payout amount for the quarter.   | <u>Basel III Regulatory Capital Disclosures:</u><br>Capital Adequacy<br><u>FFIEC 031</u><br>Schedule RC-R Part I – Regulatory Capital   | Pg. 11          | <u>FFIEC 031</u><br>Pg. 67                                     |

\* The FFIEC 031 report for this disclosure requirement is applicable for all CSC-owned depository subsidiaries: Charles Schwab Bank, Charles Schwab Premier Bank and Charles Schwab Trust Bank.

| Table   | Disclosure Requirement   | Disclosure Location  | Disclosure Page | Source Reference - if applicable  |
|---|--|--|-----------------|---|
| <b>Credit Risk: General Disclosures (Table 5)</b> |  |  |                 |   |
| Qualitative:<br>(a)                               | The general qualitative disclosure requirement with respect to credit risk (excluding counterparty credit risk disclosed in accordance with Table 6), including the:<br>(1) Policy for determining past due or delinquency status;<br>(2) Policy for placing loans on nonaccrual;<br>(3) Policy for returning loans to accrual status;<br>(4) Definition of and policy for identifying impaired loans (for financial accounting purposes);<br>(5) Description of the methodology that the Board-regulated institution uses to estimate its allowance for loan and lease losses, including statistical methods used where applicable;<br>(6) Policy for charging-off uncollectible amounts; and<br>(7) Discussion of the Board-regulated institution's credit risk management policy. | <u><b>2019 Form 10-K</b></u><br>MD&A – Risk Management<br>Note 2 – Summary of Significant Accounting Policies  |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 41-50<br>Pg. 64-73  |
| Quantitative:<br>(b)                              | Total credit risk exposures and average credit risk exposures, after accounting offsets in accordance with GAAP, without taking into account the effects of credit risk mitigation techniques (for example, collateral and netting not permitted under GAAP), over the period categorized by major types of credit exposure. For example, Board-regulated institutions could use categories similar to that used for financial statement purposes. Such categories might include, for instance<br>(1) Loans, off-balance sheet commitments, and other non-derivative off-balance sheet exposures;<br>(2) Debt securities; and<br>(3) OTC derivatives.  | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Credit Risk<br><br><u><b>2019 Form 10-K</b></u><br>MD&A – Risk Management<br>Note 5 – Investment Securities<br>Note 6 – Bank Loans and Related Allowance for Loan Losses<br>Note 14 – Commitments and Contingencies<br>Note 15 – Financial Instruments Subject to Off-Balance Sheet Credit Risk | Pg. 11-12       | <u><b>2019 Form 10-K</b></u><br>Pg. 41-50<br>Pg. 75-78<br>Pg. 79-83<br><br>Pg. 88-90<br>Pg. 90-92 |
| (c)   | Geographic distribution of exposures, categorized in significant areas by major types of credit exposure.  | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Credit Risk, Credit Exposure By Geographic Concentrations   | Pg. 11, 13      |   |
| (d)   | Industry or counterparty type distribution of exposures, categorized by major types of credit exposure   | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Credit Risk   | Pg. 12          |   |
| (e)   | By major industry or counterparty type:<br>(1) Amount of impaired loans for which there was a related allowance under GAAP;<br>(2) Amount of impaired loans for which there was no related allowance under GAAP;<br>(3) Amount of loans past due 90 days and on nonaccrual;<br>(4) Amount of loans past due 90 days and still accruing;<br>(5) The balance in the allowance for loan and lease losses at the end of each period, disaggregated on the basis of the Board-regulated institution's impairment method. To disaggregate the information required on the basis of impairment methodology, an entity shall separately disclose the amounts based on the requirements in GAAP; and<br>(6) Charge-offs during the period.  | <u><b>2019 Form 10-K</b></u><br>Note 6 – Bank Loans and Related Allowance for Loan Losses  |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 79-83   |

| Table  | Disclosure Requirement  | Disclosure Location  | Disclosure Page | Source Reference - if applicable  |
|--|---|--|-----------------|---|
| <b>Credit Risk: General Disclosures (Table 5) – continued</b>                      |   |  |                 |   |
| (f)  | Amount of impaired loans and, if available, the amount of past due loans categorized by significant geographic areas including, if practical, the amounts of allowances related to each geographical area, further categorized as required by GAAP.   | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Credit Exposure By Geographic Concentrations<br><u><b>2019 Form 10-K</b></u><br>Note 6 – Bank Loans and Related Allowance for Loan Losses<br><u><b>FR Y-9C</b></u><br>Schedule HC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets   | Pg. 13          | <u><b>2019 Form 10-K</b></u><br>Pg. 79-83<br><br><u><b>FR Y-9C</b></u><br>Pg. 41-46                                       |
| (g)  | Reconciliation of changes in ALLL.  | <u><b>2019 Form 10-K</b></u><br>Note 6 – Bank Loans and Related Allowance for Loan Losses<br><u><b>FR Y-9C</b></u><br>Schedule HI-B – Charge-Offs and Recoveries on Loans and Leases and Changes in Allowance for Loan and Lease Losses<br><u><b>FFIEC 031</b></u><br>Schedule RI-B Part II. Changes in Allowance for Loan and Lease Losses                      |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 79-83<br><br><u><b>FR Y-9C</b></u><br>Pg. 10<br><br><u><b>FFIEC 031</b></u><br>Pg. 11 |
| (h)  | Remaining contractual maturity delineation (for example, one year or less) of the whole portfolio, categorized by credit exposure.  | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Credit Risk<br><u><b>FFIEC 031</b></u><br>Schedule RC-C – Loans and Financing Receivables   | Pg. 12          | <u><b>FFIEC 031</b></u><br>Pg. 27   |
| <b>General Disclosure for Counterparty Credit Risk-Related Exposures (Table 6)</b> |   |  |                 |   |
| Qualitative:<br>(a)  | The general qualitative disclosure requirement with respect to OTC derivatives, eligible margin loans, and repo-style transactions, including a discussion of:<br><ol style="list-style-type: none"><li>(1) The methodology used to assign credit limits for counterparty credit exposures;</li><li>(2) Policies for securing collateral, valuing and managing collateral, and establishing credit reserves;</li><li>(3) The primary types of collateral taken; and</li><li>(4) The impact of the amount of collateral the Board-regulated institution would have to provide given a deterioration in the Board-regulated institution’s own creditworthiness.</li></ol> | <u><b>2019 Form 10-K</b></u><br>MD&A – Risk Management<br>Note 2 – Summary of Significant Accounting Policies<br>Note 14 – Commitments and Contingencies<br>Note 15 – Financial Instruments Subject to Off-Balance Sheet Credit Risk<br><br>(4) Not applicable. CSC does not have any contingent payment obligations that would result from a ratings downgrade. |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 41-50<br>Pg. 64-73<br><br>Pg. 88-90<br>Pg. 90-92                                      |
| Quantitative:<br>(b)   | Gross positive fair value of contracts, collateral held (including type, for example, cash, government securities), and net unsecured credit exposure.<br><br>A Board-regulated institution must disclose the notional value of credit derivative hedges purchased for counterparty credit risk protection and the distribution of current credit exposure by exposure type.  | <u><b>2019 Form 10-K</b></u><br>Note 15 – Financial Instruments Subject to Off-Balance Sheet Credit Risk<br><br>Not applicable. CSC does not hold credit derivatives.  |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 90-92   |
| (c)  | Notional amount of purchased and sold credit derivatives, segregated between use for the Board-regulated institution’s own credit portfolio and in its intermediation activities, including the distribution of the credit derivative products used, categorized further by protection bought and sold within each product group.   | Not applicable. The Company does not transact in credit derivatives.   |                 |   |
| <b>Credit Risk Mitigation (Table 7)</b>  |   |  |                 |   |
| Qualitative:<br>(a)  | The general qualitative disclosure requirement with respect to credit risk mitigation, including:<br><ol style="list-style-type: none"><li>(1) Policies and processes for collateral valuation and management;</li><li>(2) A description of the main types of collateral taken by the Board-regulated institution;</li><li>(3) The main types of guarantors/credit derivative counterparties and their creditworthiness; and</li><li>(4) Information about (market or credit) risk concentrations with respect to credit risk mitigation.</li></ol>   | <u><b>2019 Form 10-K</b></u><br>MD&A – Risk Management<br>Note 2 – Summary of Significant Accounting Policies<br>Note 5 – Investment Securities<br>Note 6 – Bank Loans and Related Allowance for Loan Losses<br>Note 15 – Financial Instruments Subject to Off-Balance Sheet Credit Risk<br>Note 16 – Fair Values of Assets and Liabilities                      |                 | <u><b>2019 Form 10-K</b></u><br>Pg. 41-50<br>Pg. 64-73<br><br>Pg. 75-78<br>Pg. 79-83<br><br>Pg. 90-92<br>Pg. 93-96        |



| Table   | Disclosure Requirement  | Disclosure Location   | Disclosure Page | Source Reference - if applicable   |
|---|---|---|-----------------|------------------------------------|
| <b>Credit Risk Mitigation (Table 7) – continued</b> |   |   |                 |                                    |
| Quantitative:<br>(b)                                | For each separately disclosed credit risk portfolio, the total exposure that is covered by eligible financial collateral, and after the application of haircuts.  | <b>2019 Form 10-K</b><br>Note 15 – Financial Instruments Subject to Off-Balance Sheet Credit Risk |                 | <b>2019 Form 10-K</b><br>Pg. 90-92 |
| (c)   | For each separately disclosed portfolio, the total exposure that is covered by guarantees/credit derivatives and the risk-weighted asset amount associated with that exposure.  | Not applicable. CSC does not hold credit derivatives.   |                 |                                    |
| <b>Securitization (Table 8)</b>                     |   |   |                 |                                    |
| Qualitative:<br>(a)                                 | The general qualitative disclosure requirement with respect to a securitization (including synthetic securitizations), including a discussion of:<br><br><ol style="list-style-type: none"> <li>(1) The Board-regulated institution’s objectives for securitizing assets, including the extent to which these activities transfer credit risk of the underlying exposures away from Board-regulated institution to other entities and including the type of risks assumed and retained with resecuritization activity;</li> <li>(2) The nature of the risks (e.g. liquidity risk) inherent in the securitized assets;</li> <li>(3) The roles played by the Board-regulated institution in the securitization process and an indication of the extent of the Board-regulated institution’s involvement in each of them;</li> <li>(4) The processes in place to monitor changes in the credit and market risk of securitization exposures including how those processes differ for resecuritization exposures;</li> <li>(5) The Board-regulated institution’s policy for mitigating the credit risk retained through securitization and resecuritization exposures; and</li> <li>(6) The risk-based capital approaches that the Board-regulated institution follows for its securitization exposures including the type of securitization exposure to which each approach applies.</li> </ol> | <b>Basel III Regulatory Capital Disclosures:</b><br>Securitizations                               | Pg. 13-14       |                                    |
| (b)   | A list of:<br><br><ol style="list-style-type: none"> <li>(1) The type of securitization SPEs that the Board-regulated institution, as sponsor, uses to securitize third-party exposures. The Board-regulated institution must indicate whether it has exposure to these SPEs, either on- or off-balance sheet; and</li> <li>(2) Affiliated entities:<br/> <ol style="list-style-type: none"> <li>(i) That the Board-regulated institution manages or advises; and</li> <li>(ii) That invest either in the securitization exposures that the Board-regulated institution has securitized or in securitization SPEs that the Board-regulated institution sponsors.</li> </ol> </li> </ol>   | Not applicable. CSC does not securitize assets.   |                 |                                    |
| (c)   | Summary of the Board-regulated institution’s accounting policies for securitization activities, including:<br><br><ol style="list-style-type: none"> <li>(1) Whether the transactions are treated as sales or financings;</li> <li>(2) Recognition of gain-on-sale;</li> <li>(3) Methods and key assumptions applied in valuing retained or purchased interests;</li> <li>(4) Changes in methods and key assumptions from the previous period for valuing retained interests and impact of the changes;</li> <li>(5) Treatment of synthetic securitizations;</li> <li>(6) How exposures intended to be securitized are valued and whether they are recorded under subpart D of this part; and</li> <li>(7) Policies for recognizing liabilities on the balance sheet for arrangements that could require the Board-regulated institution to provide financial support for securitized assets.</li> </ol>  | Not applicable. CSC does not securitize assets.   |                 |                                    |

| Table   | Disclosure Requirement  | Disclosure Location  | Disclosure Page | Source Reference - if applicable   |
|---|---|--|-----------------|--|
| <b>Securitization (Table 8) – continued</b>                     |   |  |                 |  |
| (d)   | An explanation of significant changes to any quantitative information since the last reporting period.  | Not applicable. CSC does not securitize assets.  |                 |  |
| Quantitative:<br>(e)  | The total outstanding exposures securitized by the Board-regulated institution in securitizations that meet the operational criteria provided in § 217.41 (categorized into traditional and synthetic securitizations), by exposure type, separately for securitizations of third-party exposures for which the bank acts only as sponsor.  | Not applicable. CSC does not securitize assets.  |                 |  |
| (f)   | For exposures securitized by Board-regulated institution in securitizations that meet the operational criteria in § 217.41:<br>(1) Amount of securitized assets that are impaired/past due categorized by exposure type; and<br>(2) Losses recognized by Board-regulated institution during the current period categorized by exposure type.  | Not applicable. CSC does not securitize assets.  |                 |  |
| (g)   | The total amount of outstanding exposures intended to be securitized categorized by exposure type.  | Not applicable. CSC does not securitize assets.  |                 |  |
| (h)   | Aggregate amount of:<br>(1) On-balance sheet securitization exposures retained or purchased categorized by exposure type; and<br>(2) Off-balance sheet securitization exposures categorized by exposure type.   | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Securitizations<br><br><u><b>FR Y-9C</b></u><br>Schedule HC-R – Regulatory Capital<br><br><u><b>FFIEC 031</b></u><br>Schedule RC-R Part II – Regulatory Capital | Pg. 13-14       | <u><b>FR Y-9C</b></u><br>Pg. 60<br><br><u><b>FFIEC 031</b></u><br>Pg. 74 |
| (i)   | (1) Aggregate amount of securitization exposures retained or purchased and the associated capital requirements for these exposures, categorized between securitization and resecuritization exposures, further categorized into a meaningful number of risk weight bands and by risk-based capital approach (e.g., SSFA); and<br>(2) Exposures that have been deducted entirely from tier 1 capital, CEIOs deducted from total capital (as described in § 217.42(a)(1)), and other exposures deducted from total capital should be disclosed separately by exposure type.   | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Securitizations   | Pg. 14          |  |
| (j)   | Summary of current year’s securitization activity, including the amount of exposures securitized (by exposure type), and recognized gain or loss on sale by exposure type.  | Not applicable. CSC does not securitize assets.  |                 |  |
| (k)   | Aggregate amount of resecuritization exposures retained or purchased categorized according to:<br>(1) Exposures to which credit risk mitigation is applied and those not applied; and<br>(2) Exposures to guarantors categorized according to guarantor creditworthiness categories or guarantor name.  | Not applicable. CSC does not have any resecuritization exposures.  |                 |  |
| <b>Equities Not Subject to Subpart F of This Part (Table 9)</b> |   |  |                 |  |
| Qualitative:<br>(a)   | The general qualitative disclosure requirement with respect to equity risk for equities not subject to subpart F of this part, including:<br>(1) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and<br>(2) Discussion of important policies covering the valuation of and accounting for equity holdings not subject to subpart F of this part. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices. | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Equity Securities Not Subject to the Market Risk Capital Rule   | Pg. 14          |  |
| Quantitative:<br>(b)  | Value disclosed on the balance sheet of investments, as well as the fair value of those investments; for securities that are publicly traded, a comparison to publicly-quoted share values where the share price is materially different from fair value.   | <u><b>Basel III Regulatory Capital Disclosures:</b></u><br>Equity Securities Not Subject to the Market Risk Capital Rule   | Pg. 14          |  |

| Table   | Disclosure Requirement  | Disclosure Location  | Disclosure Page | Source Reference - if applicable                       |
|---|---|--|-----------------|--|
| <b>Equities Not Subject to Subpart F of This Part (Table 9) - continued</b> |   |  |                 |  |
| (c)   | The types and nature of investments, including the amount that is:<br>(1) Publicly traded; and<br>(2) Non-publicly traded.  | <b><u>Basel III Regulatory Capital Disclosures:</u></b><br>Equity Securities Not Subject to the Market Risk Capital Rule | Pg. 14          |  |
| (d)   | The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.   | Not applicable. There were not any sales or liquidations in the reporting period.  |                 |  |
| (e)   | (1) Total unrealized gains (losses).<br>(2) Total latent revaluation gains (losses).<br>(3) Any amounts of the above included in tier 1 or tier 2 capital.  | Not applicable. There are not any unrealized gains (losses) in the reporting period.                                     |                 |  |
| (f)   | Capital requirements categorized by appropriate equity groupings, consistent with the Board-regulated institution's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition regarding regulatory capital requirements.                             | <b><u>Basel III Regulatory Capital Disclosures:</u></b><br>Equity Securities Not Subject to the Market Risk Capital Rule | Pg. 14          |  |
| <b>Interest Rate Risk for Non-Trading Activities (Table 10)</b>             |   |  |                 |  |
| Qualitative:<br>(a)   | The general qualitative disclosure requirement, including the nature of interest rate risk for non-trading activities and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of measurement of interest rate risk for non-trading activities. | <b><u>2019 Form 10-K</u></b><br>MD&A – Risk Management<br>Note 6 – Bank Loans and Related Allowance for Loan Losses      |                 | <b><u>2019 Form 10-K</u></b><br>Pg. 41-50<br>Pg. 79-83 |
| Quantitative:<br>(b)  | The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk for non-trading activities, categorized by currency (as appropriate).   | <b><u>2019 Form 10-K</u></b><br>MD&A – Risk Management   |                 | <b><u>2019 Form 10-K</u></b><br>Pg. 41-50              |
| <b>Supplementary Leverage Ratio (Table 13 to § 217.173)</b>                 |   |  |                 |  |
| Quantitative:<br>(1)  | Summary comparison of accounting assets and total leverage exposure.  | <b><u>Basel III Regulatory Capital Disclosures:</u></b><br>Supplementary Leverage Ratio                                  | Pg. 15          |  |
| Quantitative:<br>(2)  | Supplementary leverage ratio.   | <b><u>Basel III Regulatory Capital Disclosures:</u></b><br>Supplementary Leverage Ratio                                  | Pg. 15-16       |  |

## COMPONENTS OF CAPITAL

A reconciliation of total stockholders' equity to CET1 capital, additional Tier 1 capital, Tier 2 capital, and Total capital is as follows<sup>(1)</sup>:

| <i>(Dollars in Millions, Unaudited)</i>                                       | <b>At December 31, 2019</b> |               |
|---|-----------------------------|---------------|
| <b>Total stockholders' equity</b> <sup>(2)</sup>                              | \$                          | <b>21,745</b> |
| Less:   |                             |               |
| Preferred Stock   |                             | 2,793         |
| <b>CET1 capital before regulatory adjustments</b>                             |                             | <b>18,952</b> |
| Less:   |                             |               |
| Goodwill, net of associated deferred tax liabilities                          |                             | 1,184         |
| Other intangible assets, net of associated deferred tax liabilities           |                             | 104           |
| Deferred tax assets, net of valuation allowances and deferred tax liabilities |                             | 4             |
| <b>CET1 capital</b>   |                             | <b>17,660</b> |
| Additional Tier 1 Capital Preferred stock                                     |                             | 2,793         |
| <b>Tier 1 capital</b>   |                             | <b>20,453</b> |
| Allowance for loan losses   |                             | 19            |
| <b>Tier 2 capital</b>   |                             | <b>19</b>     |
| <b>Total capital</b>  | \$                          | <b>20,472</b> |

<sup>(1)</sup> Total capital was calculated using the advanced approaches framework to include all components of AOCL. See Current Regulatory Environment and Other Developments for information on recently issued rules that will impact Schwab's regulatory capital requirements.

<sup>(2)</sup> Refer to the Consolidated Balance Sheets on page 59 of the December 31, 2019 Form 10-K for the components of stockholders' equity.

## CAPITAL ADEQUACY

### STANDARDIZED RISK-WEIGHTED ASSETS (RWA)

The following table provides the Company's distribution of RWA by exposure categories prescribed by the applicable regulations. For a distribution of the Company's RWA by balance sheet categories, see Schedule HC-R of the FR Y-9C for the period ended December 31, 2019.

The following details the Company's RWA under the standardized approach.

| <i>(Dollars in Millions, Unaudited)</i>                                 | <b>At December 31, 2019</b> |               |
|---|-----------------------------|---------------|
| <b>RWA by applicable Basel III exposure category:</b>                   |                             |               |
| Exposures to sovereign and government-sponsored entities <sup>(1)</sup> | \$                          | 26,983        |
| Exposures to depository institutions, foreign banks, and credit unions  |                             | 1,279         |
| Exposures to public sector entities                                     |                             | 582           |
| Corporate exposures   |                             | 17,674        |
| Residential mortgage exposures  |                             | 6,992         |
| Past due loans  |                             | 22            |
| Other assets  |                             | 13,734        |
| Securitization exposures  |                             | 16,137        |
| Equity exposures  |                             | 1,051         |
| <b>RWA for balance sheet asset categories</b>                           |                             | <b>84,454</b> |
| Off-balance sheet items <sup>(2)</sup>                                  |                             | 6,058         |
| <b>Total risk-weighted assets under standardized approach</b>           | \$                          | <b>90,512</b> |

<sup>(1)</sup> Portions of the exposures to sovereign entities are directly and unconditionally guaranteed by, the U.S. Government, its agencies and the Federal Reserve, and thus receive 0% risk.

<sup>(2)</sup> Off-Balance sheet exposures are stated at their credit equivalent amount and include off balance sheet commitments related to unused commitments on our loan products and CRA Investments, purchase commitments and OTC and Centrally Cleared derivative exposures.

## CAPITAL RATIOS

The following details CSC's and Schwab Bank's capital ratios<sup>(1)</sup>.

| <i>(Dollars in Millions, Unaudited)</i> | At December 31, 2019 |       |                                |       |                  |       |
|---|----------------------|-------|--------------------------------|-------|------------------|-------|
|   | Actual               |       | Minimum to be Well Capitalized |       | Minimum Required |       |
|   | Amount               | Ratio | Amount                         | Ratio | Amount           | Ratio |
| <b>CSC</b>                              |                      |       |                                |       |                  |       |
| Common Equity Tier 1 Risk-Based Capital | \$ 17,660            | 19.5% | N/A                            |       | \$ 4,073         | 4.5%  |
| Tier 1 Risk-Based Capital               | 20,453               | 22.6% | N/A                            |       | 5,431            | 6.0%  |
| Total Risk-Based Capital                | 20,472               | 22.6% | N/A                            |       | 7,241            | 8.0%  |
| <b>Schwab Bank</b>                      |                      |       |                                |       |                  |       |
| Common Equity Tier 1 Risk-Based Capital | \$ 14,819            | 20.7% | \$ 4,649                       | 6.5%  | \$ 3,218         | 4.5%  |
| Tier 1 Risk-Based Capital               | 14,819               | 20.7% | 5,722                          | 8.0%  | 4,291            | 6.0%  |
| Total Risk-Based Capital                | 14,837               | 20.7% | 7,152                          | 10.0% | 5,722            | 8.0%  |

N/A - Not applicable

<sup>(1)</sup> Beginning in 2019, CSC and Schwab Bank were required to include all components of AOCI in regulatory capital. In the interagency regulatory capital and liquidity rules adopted in October 2019, Category III banking organizations such as CSC were given the ability to opt-out of the inclusion of AOCI in regulatory capital, and CSC made this opt-out election as of January 1, 2020. See Current Regulatory Environment and Other Developments for information on recently issued rules that will impact Schwab's regulatory capital requirements.

Under the Basel III capital rule (the Capital Rule), banking organizations are also required to maintain a capital conservation buffer and, beginning in 2019, a countercyclical capital buffer above the regulatory minimum risk-based capital ratios. The capital conservation buffer is 2.5%. At December 31, 2019, the countercyclical capital buffer was zero percent. If either buffer falls below the minimum requirement, the banking organization would be subject to limits on capital distributions and discretionary bonus payments to executive officers. For December 31, 2019, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital ratios was 7.0%, 8.5%, and 10.5%, respectively. At December 31, 2019, both CSC's and Schwab Bank's capital levels exceeded the fully implemented capital conservation buffer requirement.

## CREDIT RISK

Credit risk refers to the potential for loss due to a borrower, counterparty, or issuer failing to perform its contractual obligations. A foreign country is defined as any country other than the United States.

The following tables present certain of the Company's on- and off-balance sheet positions for which the Company is subject to credit risk exposure. These amounts do not include the effects of certain credit risk mitigation techniques (i.e. collateral and netting not permitted under U.S. GAAP), and amounts related to items that are deducted from regulatory capital.

The following tables are presented on a U.S. GAAP basis and reflect amounts by product type, region (as determined by the legal domicile of the counterparty), remaining contractual maturity and counterparty type.

## MAJOR CREDIT RISK EXPOSURES BY GEOGRAPHIC REGION

| <i>\$ in millions</i>                          | At December 31, 2019 |                                |                  |                   |
|--|----------------------|--------------------------------|------------------|-------------------|
|  | Americas             | Europe, Middle East and Africa | Asia and Oceania | Total             |
| <b>Product Type</b>                            |                      |                                |                  |                   |
| Cash and investments segregated <sup>(1)</sup> | \$ 41,017            | \$ 502                         | \$ 418           | \$ 41,937         |
| Investment securities <sup>(2)</sup>           | 193,920              | 1,755                          | 453              | 196,128           |
| Securities purchased under agreement to resell | 6,122                | 2,906                          | -                | 9,028             |
| Loans <sup>(3)</sup>                           | 37,386               | 131                            | 189              | 37,706            |
| Equity Exposures <sup>(4)</sup>                | 1,079                | -                              | -                | 1,079             |
| <b>Total on-balance sheet</b>                  | <b>\$ 279,524</b>    | <b>\$ 5,294</b>                | <b>\$ 1,060</b>  | <b>\$ 285,878</b> |
| Commitments <sup>(5)</sup>                     | \$ 12,303            | \$ -                           | \$ -             | \$ 12,303         |
| <b>Total off-balance sheet</b>                 | <b>\$ 12,303</b>     | <b>\$ -</b>                    | <b>\$ -</b>      | <b>\$ 12,303</b>  |

## MAJOR CREDIT EXPOSURES BY REMAINING CONTRACTUAL MATURITY

| <i>\$ in millions</i>                          | At December 31, 2019 |                  |                   |                   |
|--|----------------------|------------------|-------------------|-------------------|
|  | Years to Maturity    |                  |                   | Total             |
|  | Less than 1          | 1-5              | Over 5            |                   |
| <b>Product Type</b>                            |                      |                  |                   |                   |
| Cash and investments segregated <sup>(1)</sup> | \$ 41,937            | \$ -             | \$ -              | \$ 41,937         |
| Investment securities <sup>(2)</sup>           | 6,731                | 32,666           | 156,731           | 196,128           |
| Securities purchased under agreement to resell | 9,028                | -                | -                 | 9,028             |
| Loans <sup>(3)</sup>                           | 21,315               | 3,568            | 12,823            | 37,706            |
| Equity Exposures <sup>(4)</sup>                | 515                  | 44               | 520               | 1,079             |
| <b>Total on-balance sheet</b>                  | <b>\$ 79,526</b>     | <b>\$ 36,278</b> | <b>\$ 170,074</b> | <b>\$ 285,878</b> |
| Commitments <sup>(5)</sup>                     | \$ 3,033             | \$ 8,039         | \$ 1,231          | \$ 12,303         |
| <b>Total off-balance sheet</b>                 | <b>\$ 3,033</b>      | <b>\$ 8,039</b>  | <b>\$ 1,231</b>   | <b>\$ 12,303</b>  |

## MAJOR CREDIT EXPOSURES BY COUNTERPARTY TYPE

| <i>\$ in millions</i>                          | At December 31, 2019 |                  |                     |                  | Total             |
|--|----------------------|------------------|---------------------|------------------|-------------------|
|  | Wholesale            |                  |                     | Household        |                   |
|  | Bank                 | Public           | Corporate and Other |                  |                   |
| <b>Product Type</b>                            |                      |                  |                     |                  |                   |
| Cash and investments segregated <sup>(1)</sup> | \$ 5,184             | \$ 28,012        | \$ 8,741            | \$ -             | \$ 41,937         |
| Investment securities <sup>(2)</sup>           | 2,139                | 4,959            | 189,030             | -                | 196,128           |
| Securities purchased under agreement to resell | 2,906                | -                | 6,122               | -                | 9,028             |
| Loans <sup>(3)</sup>                           | -                    | -                | 4,726               | 32,980           | 37,706            |
| Equity Exposures <sup>(4)</sup>                | -                    | 35               | 1,044               | -                | 1,079             |
| <b>Total on-balance sheet</b>                  | <b>\$ 10,229</b>     | <b>\$ 33,006</b> | <b>\$ 209,663</b>   | <b>\$ 32,980</b> | <b>\$ 285,878</b> |
| Commitments <sup>(5)</sup>                     | \$ -                 | \$ -             | \$ 2,177            | \$ 10,126        | \$ 12,303         |
| <b>Total off-balance sheet</b>                 | <b>\$ -</b>          | <b>\$ -</b>      | <b>\$ 2,177</b>     | <b>\$ 10,126</b> | <b>\$ 12,303</b>  |

<sup>(1)</sup> Amounts include cash and cash equivalents, cash and investments segregated for regulatory purposes and receivables due from brokers, dealers and clearing organizations, which is now reported in other assets. This amount does not include the amounts related to resale agreements.

<sup>(2)</sup> Amounts include available for sale securities and held to maturity securities.

<sup>(3)</sup> Amounts include bank loans and margin loans, and includes unamortized premiums and discounts as well as direct origination costs.

<sup>(4)</sup> Amounts include the equities not subject to the market risk capital rule included in the table on page 14.

<sup>(5)</sup> Amounts represent commitments to extend credit to banking clients, purchase mortgage loans, and commitments to fund Community Reinvestment Act (CRA) investments.

## CREDIT EXPOSURE BY GEOGRAPHIC CONCENTRATIONS

The Company reports its loans into two different Loans Held for Investment (LHFI) portfolios: 1) the Mortgage Lending Portfolio and 2) the Securities-Based Lending Portfolio.

### *Mortgage Lending Portfolio*

The bank loan portfolio includes First Mortgages, HELOCs, and other loans. The credit risk exposure related to loans is actively managed through individual loan and portfolio reviews. Management regularly reviews asset quality, including concentrations, delinquencies, nonaccrual loans, charge-offs, and recoveries. All are factors in the determination of an appropriate allowance for loan losses.

The Company's residential loan underwriting guidelines include maximum LTV ratios, cash out limits, and minimum Fair Isaac Corporation (FICO) credit scores. The specific guidelines are dependent on the individual characteristics of a loan (for example, whether the property is a primary or secondary residence, whether the loan is for investment property, whether the loan is for an initial purchase of a home or refinance of an existing home, and whether the loan size is conforming or jumbo).

The Company does not originate or purchase residential loans that allow for negative amortization and does not originate or purchase subprime loans (generally defined as extensions of credit to borrowers with a FICO score of less than 620 at origination), unless the borrower has compensating credit factors.

The loans are placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless the loans are well-secured and in the process of collection), or when the full timely collection of interest or principal becomes uncertain, including loans to borrowers who have filed for bankruptcy. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method until qualifying for return to accrual status. Generally, a nonaccrual loan may be returned to accrual status when all delinquent interest and principal is repaid and the borrower demonstrates a sustained period of performance, or when the loan is both well-secured and is in the process of collection and collectability is no longer doubtful. Nonaccrual loans are considered impaired assets.

### Securities-Based Lending Portfolio

Collateral arrangements relating to margin loans and Pledged Asset Lines (PALs) include provisions that require additional collateral in the event of market fluctuations. Additionally, for margin loans and PALs, collateral arrangements require that the fair value of such collateral sufficiently exceeds the credit exposure in order to maintain a fully secured position. Collateral market value is monitored on a daily basis and a borrower's committed line may be reduced or collateral may be liquidated if the collateral is in danger of falling below specified levels.

The following table provides additional information on the geographic concentration of the combined mortgage and securities lending portfolio at December 31, 2019.

| <b>At December 31, 2019</b>                      |                            |                              |                     |              |                             |
|--|----------------------------|------------------------------|---------------------|--------------|-----------------------------|
| <b>Mortgage and Securities Lending Portfolio</b> |                            |                              |                     |              |                             |
|  | <b>LHFI <sup>(1)</sup></b> | <b>Nonaccrual</b>            |                     | <b>Total</b> | <b>Unfunded Commitments</b> |
|  |                            | <b>Current or 30-89 Days</b> | <b>Past Due 90+</b> |              |                             |
| (\$ in millions)                                 |                            |                              |                     |              |                             |
| Americas   | \$ 37,386                  | \$ 9                         | \$ 13               | \$ 22        | \$ 12,274                   |
| Europe, Middle East and Africa                   | 131                        | -                            | -                   | -            | -                           |
| Asia and Oceania                                 | 189                        | -                            | -                   | -            | -                           |
| <b>Grand Total</b>                               | <b>\$ 37,706</b>           | <b>\$ 9</b>                  | <b>\$ 13</b>        | <b>\$ 22</b> | <b>\$ 12,274</b>            |

<sup>(1)</sup> LHFI consists of the unpaid principal balance and includes unamortized premiums and discounts as well as direct origination costs. The portfolio does not currently have any loans 90 days past due that are still accruing.

## SECURITIZATIONS

The disclosures in this section refer to securitizations held in the Company's investment portfolio, and the regulatory capital related to these exposures calculated according to the Capital Rule. The Capital Rule defines securitization exposures as on-balance sheet and off-balance sheet credit exposures that result from traditional securitizations, synthetic securitizations, or resecuritizations. Traditional and synthetic securitizations arise when:

1. The credit risk of one or more underlying exposures is transferred to one or more third parties, and the underlying exposures is separated into at least two tranches reflecting different levels of seniority,
2. performance of the exposure depends upon the performance of the underlying assets, and
3. substantially all of the underlying assets are considered financial.

The difference between traditional and synthetic securitizations is that unlike traditional securitizations, synthetic securitizations transfer credit risk through the use of credit derivatives or guarantees. Resecuritizations are exposures that directly or indirectly reference a securitization exposure. Participants in securitization markets are typically originators, investors, or sponsors. The Company's securitization-related activity includes investing in products created by third parties, and the Company does not sponsor or originate securitizations. Securitization exposures held in the Company's investment portfolio include traditional agency and non-agency asset-backed securities and mortgage-backed securities. Residential mortgage-backed securities (MBS) issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), or guaranteed by the Government National Mortgage Association (GNMA), usually do not include credit tranching. Since the existence of credit tranches is a factor in determining whether an exposure qualifies for securitization treatment, agency pass-through residential MBS usually do not meet the Capital Rule's definition of securitization exposures. The Company utilizes the gross-up approach to determine risk-weighted assets for its securitization exposures. This approach considers the Company's seniority in the securitization structure and risk factors inherent in the underlying assets. The Company has a relatively low overall risk appetite, and generally invests in senior tranches, which do not require grossing-up.

The Company does not have any synthetic securitization exposure and does not act as a sponsor or guarantor; therefore, the following tables relate to the Company as an investor.

**Securitizations by exposure type:**

| <i>(Dollars in Millions, Unaudited)</i> | <b>At December 31, 2019</b> |                           |
|---|-----------------------------|---------------------------|
|   | Carrying Value              | Risk-weighted Asset Value |
| Mortgage-backed securities:             |                             |                           |
| Non-agency – Commercial                 | \$ 1,135                    | \$ 1,135                  |
| Asset-backed securities:                |                             |                           |
| Auto                                    | 1,590                       | 1,590                     |
| Credit Card                             | 9,658                       | 9,658                     |
| Student loan                            | 9,761                       | 1,952                     |
| Dealer floorplan                        | 1,223                       | 1,223                     |
| Mobile                                  | 368                         | 368                       |
| Equipment                               | 211                         | 211                       |
| Total securitizations                   | \$ 23,946                   | \$ 16,137                 |

**Securitizations by capital requirement and risk-weight bands:**

| <i>(Dollars in Millions, Unaudited)</i> | <b>At December 31, 2019</b> |                     |                                      |
|---|-----------------------------|---------------------|--------------------------------------|
|   | Carrying Value              | Risk-Weighted Asset | Capital Impact of RWA <sup>(1)</sup> |
| 20%                                     | \$ 9,761                    | \$ 1,952            | \$ 156                               |
| 100%                                    | 14,185                      | 14,185              | 1,135                                |
| Total Securitizations                   | \$ 23,946                   | \$ 16,137           | \$ 1,291                             |

<sup>(1)</sup> The capital impact of RWA is calculated by multiplying risk-weighted assets by the minimum total risk-based capital ratio of 8%.

**EQUITIES NOT SUBJECT TO THE MARKET RISK CAPITAL RULE**

The Company has total equity exposures of approximately \$1.079 billion at December 31, 2019. This includes trading assets totaling \$446 million held for operational customer accommodation purposes and investments made relating to the Company's deferred compensation plan. These are recorded at fair value. Other individual investments are related to the Company's low-income tax credit (LIHTC) investments of \$516 million, investment in Federal Home Loan Bank of San Francisco (FHLB) stock totaling \$35 million, and community reinvestment activities totaling \$69 million. The LIHTC investments are accounted for using the proportional amortization method.

**Equity exposures by type and risk weight:**

| <i>(Dollars in Millions, Unaudited)</i>                | <b>At December 31, 2019</b>                  |  |                            |                                     |
|--|--|--|----------------------------|-------------------------------------|
|  | Non-Publicly Traded Exposures <sup>(1)</sup> | Publicly Traded Exposures <sup>(1)</sup> | Risk-Weighted Asset Amount | Capital Requirements <sup>(2)</sup> |
| <b>Simple Risk Weight Approach: <sup>(3)</sup></b>     |  |  |                            |                                     |
| 20% risk weight:                                       |  |  |                            |                                     |
| Federal Home Loan Bank (FHLB) stock                    | \$ 35  | \$ -                                     | \$ 7                       | \$ 1                                |
| 100% risk weight:                                      |  |  |                            |                                     |
| Low-income housing tax credit (LIHTC) investments      | 516  | -  | 516                        | 41                                  |
| Community Reinvestment Activities (CRA)                | 69   | -  | 69                         | 6                                   |
| Marketable equity securities                           | -  | 3  | 3                          | 0                                   |
| Other investments                                      | 13   | -  | 13                         | 1                                   |
| <b>Other Risk-Weighting Approaches: <sup>(4)</sup></b> |  |  |                            |                                     |
| 100% risk weight:                                      |  |  |                            |                                     |
| Mutual funds   | -  | 443                                      | 443                        | 35                                  |
| Total  | \$ 633                                       | \$ 446                                   | \$ 1,051                   | \$ 84                               |

<sup>(1)</sup> For non-publicly traded exposures, with the exception of LIHTC investments, the amount is valued using either the adjusted cost method or the equity method. The LIHTC Investments are valued using the proportional amortization method. For publicly traded exposures, the amount represents fair value measured using the market approach.

<sup>(2)</sup> Calculated by multiplying the risk-weighted asset by the total risk-based capital ratio of 8%, which represents the minimum to be adequately capitalized.

<sup>(3)</sup> The Company applies the simple risk-weight approach to equity exposures that are not mutual funds.

<sup>(4)</sup> The Company applies the simple modified look-through approach to equity exposures that are mutual funds.



## SUPPLEMENTARY LEVERAGE RATIO

Beginning in 2019, CSC and Schwab Bank were subject to certain provisions of the advanced approaches framework under the Capital Rule. As a result, the Company was required to include all components of AOCI in regulatory capital and report a supplementary leverage ratio (SLR), which is calculated as Tier 1 capital divided by the total leverage exposure (see update in *Current Regulatory Environment and Other Developments* section). The total leverage exposure includes all on-balance sheet assets and certain off-balance sheet exposures, including unused commitments. The Company is required to maintain a supplementary leverage ratio of 3.0%. At December 31, 2019, the Company's SLR of 7.1% exceeded the minimum requirement.

The following table presents the Company's consolidated total assets under GAAP and the supplementary leverage exposure.

*Summary comparison of accounting assets and total leverage exposure:*

*(Dollars in Millions, Unaudited)*

**At December 31, 2019**

| <b>Total Leverage Exposure:</b>   |                   |
|---|-------------------|
| Total consolidated assets as reported in published financial statements | \$ 294,005        |
| Adjustment for derivative transactions                                  | 229               |
| Adjustment for repo-style transactions                                  | -                 |
| Adjustment for off-balance sheet exposures                              | 6,869             |
| Other adjustments   |                   |
| Adjustments for deductions from tier 1 capital                          | (1,292)           |
| Adjustment for frequency calculations                                   | (12,998)          |
| <b>Total Leverage Exposure</b>  | <b>\$ 286,813</b> |

The following table presents the detailed components of the Company's SLR computation, under U.S. Basel III fully phased-in rules.

**Supplementary leverage ratio:**

(Dollars in Millions, Unaudited)

At December 31,  
2019

|  |   | At December 31,<br>2019 |
|--|---|-------------------------|
| <b>On-balance sheet exposures</b>        |   |                         |
| 1  | On-balance sheet exposures (excluding on-balance sheet assets for repo-style transactions and derivative exposures, but including cash collateral received in derivative transactions)  | \$ 268,526              |
| 2  | LESS: Asset amounts deducted in determining Tier 1 capital  | 1,292                   |
| 3  | <b>Total on-balance sheet exposures (excluding on-balance sheet assets for repo-style transactions and derivative exposures, but including cash collateral received in derivative transactions) (sum of row 1 and 2)</b>  | <b>\$ 267,234</b>       |
| <b>Derivative exposures</b>              |   |                         |
| 4  | Replacement cost for derivative exposures (that is, net of cash variation margin).  | \$ 92                   |
| 5  | Add-on amounts for potential future exposure (PFE) associated with <i>all</i> derivatives transactions  | 229                     |
| 6  | Gross-up for cash collateral posted if deducted from the on-balance sheet assets, except for cash variation margin  | -                       |
| 7  | LESS: Deductions of receivable assets for cash variation margin posted in derivative transactions, if included in on-balance sheet assets.  | -                       |
| 8  | LESS: Exempted CCP leg of client-cleared trade exposures  | -                       |
| 9  | Adjusted effective notional amount of written credit derivatives  | -                       |
| 10                                       | LESS: Effective notional principal offsets and PFE adjustments for sold credit protection   | -                       |
| 11                                       | <b>Total derivative exposures (sum of rows 4 to 10)</b>   | <b>\$ 321</b>           |
| <b>Repo-style transactions</b>           |   |                         |
| 12                                       | On-balance sheet assets for repo-style transactions, except include the gross value of receivables for reverse repurchase transactions. Exclude from this item the value of securities received in a security-for-security repo-style transaction where the securities lender has not sold or re-hypothecated the securities received. Include in this item the value of securities that qualified for sales treatment that must be reversed. | \$ 12,389               |
| 13                                       | LESS: Reduction of the gross value of receivables in reverse repurchase transactions by cash payables in repurchase transactions under netting agreements   | -                       |
| 14                                       | Counterparty credit risk for all repo-style transactions  | -                       |
| 15                                       | Exposure for repo-style transactions where a banking organization acts as an agent  | -                       |
| 16                                       | <b>Total repo-style transaction exposures (sum of rows 12 to 15)</b>  | <b>\$ 12,389</b>        |
| <b>Other off-balance sheet exposures</b> |   |                         |
| 17                                       | Off-balance sheet exposure at gross notional amount   | \$ 12,510               |
| 18                                       | LESS: Adjustments for conversion to credit equivalent amounts   | (5,641)                 |
| 19                                       | <b>Off-balance sheet items (sum of rows 17 and 18)</b>  | <b>\$ 6,869</b>         |
| <b>Capital and total exposures</b>       |   |                         |
| 20                                       | <b>Tier 1 capital</b>   | <b>\$ 20,453</b>        |
| 21                                       | <b>Total exposures (sum of rows 3, 11, 16 and 19)</b>   | <b>\$ 286,813</b>       |
| <b>Supplementary leverage ratio</b>      |   |                         |
| 22                                       | <b>Supplementary Leverage Ratio</b>   | <b>7.1%</b>             |