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# Charles Schwab Bank Resolution Plan

## Public Section

Approved by the Board of Directors: October 20, 2015

Submitted to the FDIC: December 21, 2015



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## I. Introduction

The Charles Schwab Bank (“CSB,” the “Bank,” or “Schwab Bank”) Resolution Plan (the “Plan”) is being submitted pursuant to the Final Rule (the “Rule”) adopted by the Federal Deposit Insurance Corporation (“FDIC”) on resolution plans for insured depository institutions with \$50 billion or more in total assets as codified at 12 CFR 360.10. This Rule requires each Covered Insured Depository Institution (“CIDI”) to submit periodically to the FDIC a plan for the resolution of the institution in the event of its failure. While this rule is intended to compliment the resolution plan requirements of the Dodd-Frank Act (“DFA”), neither Schwab Bank nor its parent company, Charles Schwab Corporation, is required to file a DFA resolution plan under Section 165(d) of the DFA. Therefore, some provisions of this Plan may differ from other bank’s resolution plans, which may be prepared by banks to satisfy both requirements.

Schwab Bank, which commenced operations in 2003, is a federal savings bank headquartered in Reno, Nevada. On December 31, 2014, the Bank had total consolidated assets of approximately \$111 billion, and therefore meets the CIDI definition.

The Bank maintains a highly liquid balance sheet, as demonstrated by the following attributes and metrics (as of 12/31/2014):

- 86% of total assets are in cash or in investment securities
- 50% of total assets are in securities issued by Government Sponsored Enterprises (GSE)
- Low loan-to-deposit ratio of 13.08%, compared to the peer average of 81.72%<sup>1</sup>
- The Bank has no debt, and assets are 100% funded by deposits and common equity

The Bank’s loan portfolio is of exceptionally high quality as well. While the Bank will make first mortgage loans or Home Equity Lines of Credit (“HELOCs”) to any qualified borrower who meets the Bank’s underwriting criteria, the Bank primarily markets to the brokerage clients of its affiliate, Charles Schwab & Co., Inc. (“CS&Co”). In addition to loans on residential real estate, the Bank also offers Pledged Asset Lines of Credit (“PALs”) to CS&Co brokerage clients secured by liquid investments in publicly traded securities custodied at CS&Co.

The following metrics reflect the strength of the Bank’s loan portfolio (as of 12/31/2014):

- Originated first mortgage and HELOC balances 30 days or more delinquent are at 0.30% and 0.29%, respectively, compared to the peer average of 3.06%<sup>1</sup>
- Texas Ratio<sup>2</sup> of 0.76, compared to the peer average of 10.22<sup>3</sup>
- 82% of first mortgage balances are with borrowers with FICO scores of 740 or greater

The 2015 Charles Schwab Bank Resolution Plan is the Bank's third annual submission to the FDIC, and although the submission of an annual plan is a regulatory requirement, the Bank is committed to effective risk management and believes that recovery and resolution planning is an important part of our risk management responsibility. Over the past several years the Bank has aligned resources and processes in order to enhance its capabilities that support both its recovery planning and its resolution planning.

The Rule requires that this Plan content enable the FDIC, as receiver, to resolve the Bank in the event of its insolvency under the Federal Deposit Insurance Act. The Bank believes that, in the unlikely event that the Bank were to be in danger of insolvency and neither its recovery plan nor other private sector solutions were able to prevent the insolvency, this Plan would effectively resolve the Bank in a reasonable timeframe, maintaining its critical services and minimizing any taxpayer exposure to the risk of loss, as the Plan does not assume or plan for support by the United States or its taxpayers. The Bank believes that its relatively simple business model, conservative risk profile, relatively small residential loan portfolio, limited business banking, no debt, and no derivatives trading, minimizes any complexities or complications that could arise in a resolution of the Bank. In particular, the Bank believes that its highly liquid balance sheet would facilitate a rapid and orderly resolution in a manner that would be less challenging than it would be for most other banks of comparable size.

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<sup>1</sup> Federal Financial Institutions Examination Council Central Data Repository's Public Data Distribution website, *Uniform Bank Performance Reports*, Closest 99 National Deposit Peers, <https://cdr.ffiec.gov>.

<sup>2</sup> The Texas ratio is the amount of a bank's non-performing assets and loans, as well as loans delinquent for more than 90 days, divided by the tangible capital equity plus its loan loss reserve. A ratio of more than 100 is considered a warning sign.

<sup>3</sup> Federal Financial Institutions Examination Council Central Data Repository's Public Data Distribution website, *Uniform Bank Performance Reports*, Closest 99 Deposit Peers, <https://cdr.ffiec.gov>.



## II. Material Entities

Schwab Bank conducts its business through a simple operating model and has identified its Material Entities according to Rule requirements:

- Material Entity- “A company that is significant to the activities of a Critical Service or Core Business Line”

The Bank’s Material Entities have been identified for the purposes of the Plan to include Charles Schwab & Co., Inc. (“CS&Co”) and Charles Schwab Investment Management, Inc. (“CSIM”). CS&Co and CSIM are not subsidiaries of the Bank, they are holding company affiliates of the Bank, also known as Affiliates under the Plan. The Bank does not have any subsidiaries.

The Bank’s parent company, Charles Schwab Corporation (“CSC”) was determined to not be a Material Entity in accordance with the defined terms for Material Entity in the Rule. The Bank’s Material Entities are described in the following chart:

Schwab Bank Material Entities by Core Business Line	
Material Entity Name	Type of Entity
Charles Schwab Bank (CSB)	Covered Insured Depository Institution (CIDI), FDIC-insured federal savings bank with its main office in Reno, Nevada
Charles Schwab & Co. (CS&Co)	Affiliate, Registered securities broker-dealer; a California corporation
Charles Schwab Investment Management, Inc. (CSIM)	Affiliate, Registered investment advisor; a Delaware corporation

### III. Core Business Lines

For purposes of the Bank’s resolution planning, the Bank has identified two (2) specific Core Business Lines (“CBLs”) based on the definition in 12CFR Part 360:

- Core Business Line - “Business lines...including associated operations, services, functions, and support that...upon failure would result in a material loss of revenue, profit, or franchise value”

Applying this definition, the Bank’s Retail Banking and Business Trust operations were determined to be Core Business Lines.

Schwab Bank Core Business Lines	
RB: Retail Banking – Core Business Line (CBL)	Retail Banking offers basic deposit and loan products, including but not limited to a checking account, savings account, home lending mortgage and home equity line of credit, and a pledged asset line of credit
BT: Business Trust – Core Business Line (CBL)	Business Trust primarily offers trust and custody products and services to sponsors of qualified and non-qualified plans

#### Retail Banking as a Core Business Line

The Retail Banking Core Business Line provides a limited range of loan and deposit products and services. For deposit products, the Bank primarily offers investors an Investor Checking account (“HYIC”) and Investor Savings account (“HYIS”), both of which provide online and mobile banking services including worldwide ATM access without fees.

For lending products, the Bank offers investors several loan products, including residential mortgages for home purchase and refinance, Home Equity Lines of Credit (“HELOCs”), and Pledged Asset Lines of Credit (“PALs”).

These products are generally available through telephone banking, online banking, and mobile banking. Other deposit products are serviced through our headquarters location in Reno, Nevada.



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## **Business Trust as a Core Business Line**

Business Trust is a division of Schwab Bank. The Business Trust Division's trust and custody services are the primary product it offers, serving sponsors of qualified and non-qualified retirement plans. The Business Trust Division also acts as a trustee for a group of Collective Trust Funds ("CTFs"). These services include: trading and settlement of securities, income collection and payment, account cash management, trust oversight, client reporting, regulatory reporting, management reporting, and reconciliation of cash and securities.



## IV. Financial Information

### Financial Statements for the Bank

<b>Charles Schwab Bank Unconsolidated Balance Sheet</b>
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**December 31, 2014**

In millions, except per share and share amounts

**Assets**

Cash and cash equivalents	\$	8,207
Securities available for sale	\$	54,783
Securities held to maturity	\$	34,389
Fair value - \$34,743 at December 31, 2014		
Loans	\$	13,487
Net of allowance for loan losses of \$42 at December 31, 2014		
Other assets	\$	412
<b>Total Assets</b>	<b>\$</b>	<b>111,278</b>

**Liabilities and Stockholder's Equity**

Interest-bearing deposits	\$	102,256
Noninterest-bearing deposits	\$	564
Unsettled security purchases	\$	224
Accrued expenses and other liabilities	\$	259
Payables to affiliates	\$	92
<b>Total Liabilities</b>	<b>\$</b>	<b>103,395</b>

Stockholder's equity:

Common stock	\$	100
\$100 par value per share: 1,000,000 shares authorized and outstanding		
Additional paid-in capital	\$	3,368
Retained earnings	\$	4,250
Accumulated other comprehensive income	\$	165
<b>Total Stockholder's Equity</b>	<b>\$</b>	<b>7,883</b>

<b>Total Liabilities and Stockholder's Equity</b>	<b>\$</b>	<b>111,278</b>
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**Charles Schwab Bank Statement of Income****December 31, 2014**

In millions

**Interest Income**

Cash Equivalents	\$	21
Securities available for sale	\$	546
Securities held to maturity	\$	828
Loans	\$	354
Total interest income	\$	1,749
Interest expense - deposits	\$	(30)
Net interest income	\$	1,719
Provision for loan losses	\$	4
Net interest income after provision for loan losses	\$	1,723

**Noninterest Income**

Trust revenue	\$	97
Net impairment losses on securities	\$	(1)
Other	\$	69
Total noninterest income	\$	165

**Noninterest Expense**

Professional services	\$	200
Regulatory fees and assessments	\$	63
Compensation and benefits	\$	62
Loan servicing expense	\$	10
Other	\$	47
Total noninterest expense	\$	382

Income before taxes on income	\$	1,506
Taxes on income	\$	560
<b>Net Income</b>	<b>\$</b>	<b>946</b>

## Capital

The Bank's sources of capital include common stock, capital contributions (additional paid in capital), retained earnings, and other comprehensive income.

Under normal circumstances, the Bank generates sufficient capital from earnings to support organic growth and does not go to external markets for debt or equity capital. When bulk transfers of brokerage deposits have driven exceptional growth in short periods of time, the Bank received capital infusions from its Parent, CSC, in order to stay above its internal target.

## Regulatory Capital

The Bank is required to maintain minimum capital levels as specified in federal banking laws and regulations. At December 31, 2014 and 2013, the Bank's regulatory capital and ratios were as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2014</b>						
Tier 1 Risk-Based Capital	\$ 7,700	22.1%	\$ 1,397	4.0%	\$ 2,095	6.0%
Total Risk-Based Capital	\$ 7,744	22.2%	\$ 2,793	8.0%	\$ 3,492	10.0%
Tier 1 Leverage	\$ 7,700	6.9%	\$ 4,438	4.0%	\$ 5,548	5.0%
Tangible Equity	\$ 7,700	6.9%	2,219	2.0%	N/A	
<b>December 31, 2013</b>						
Tier 1 Risk-Based Capital	\$ 6,550	19.0%	\$ 1,383	4.0%	\$ 2,074	6.0%
Total Risk-Based Capital	\$ 6,599	19.1%	\$ 2,766	8.0%	\$ 3,457	10.0%
Tier 1 Leverage	\$ 6,550	6.6%	\$ 3,994	4.0%	\$ 4,993	5.0%
Tangible Equity	\$ 6,550	6.6%	\$ 1,997	2.0%	\$ N/A	

N/A Not Applicable

The Bank's conservative approach to lending and investing results in a lower risk profile relative to the industry and risk-based capital ratios significantly in excess of well capitalized levels. The Bank intends to remain well capitalized even in stressed environments. As such, the Board uses the results of forecast stress scenarios (including both Bank specific and regulatory scenarios) to evaluate the capital buffer needed. As of the Bank's last such assessment, a risk limit of 6.25% provided a sufficient buffer for the Bank to remain above 5.0% and well-capitalized at the worst point of a capital stress testing scenario.

Based on its regulatory capital ratios at December 31, 2014, as well as for 2013, the Bank is considered well capitalized (the highest category) pursuant to banking regulatory guidelines.



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## **Funding**

The Bank's major source of funding is its Sweep Deposits followed by deposits in its Investor Checking and Investor Savings products. These three sources account for over 90% of the Bank's funding. Equity accounts for the rest of the Bank's funding. The Bank has no debt.

The Bank has the capability to obtain secured funding from either the Federal Home Loan Bank (FHLB) or the Federal Reserve Bank. The Bank has pledged collateral consisting of mortgage loans and home equity lines of credit to the FHLB, and securities to the Federal Reserve Bank discount window. The Bank could also pledge securities to the FHLB and has additional available collateral that it could pledge to the FHLB, Federal Reserve, and other counterparties. Under contingency plans, the Bank may utilize wholesale funding such as reverse repurchase agreements that are collateralized by the Bank's unencumbered securities portfolio.

## **Liquidity**

To ensure adequate liquidity, the Bank's Treasury Cash Management team manages, forecasts, and reports daily on the Bank's liquidity position including intraday and overnight liquidity. Excess cash above the reserve requirement is either left at an account at the Federal Reserve or is invested by the Treasury Capital Markets team. Funds could be borrowed from the uncommitted fed funds lines, FHLB, or Federal Reserve Discount Window (generally in that order) if a liquidity shortfall were to exist. Liquidity measures such as overnight and six month liquid asset requirements are monitored by Treasury Corporate Finance (TCF) personnel.

The TCF team reviews funding sources and manages liquidity in the medium to longer term. TCF also monitors early warning indicators (EWIs) and notifies the Bank CFO or Bank Treasurer if any EWIs are triggered. If appropriate, the Bank CFO or the Bank Treasurer can invoke the contingency funding plan to stem a liquidity crisis. Any exceptions to EWIs or other monitored liquidity measures are reported to the Bank's Asset Liability Committee (ALCO).

On a monthly basis, liquidity stress testing is performed, in the form of contingency funding analyses, and is reported to the Bank's ALCO. Contingency funding scenarios and assumptions are reviewed and approved by the Bank's ALCO and the Bank Board Risk Committee at least annually. A tabletop test of the Bank's Contingency Funding Plan is performed and reported to Bank ALCO annually. The Bank's Capital Plan also includes a liquidity scenario that stresses the Bank's ability to fund significant outflows.



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## **V. Description of Derivative Activities and Hedging Activities**

### **Derivative and Hedging for the CIDI, Charles Schwab Bank**

While the Bank purchases investments to hold on its balance sheet for income, and buys and sells securities for client retirement plan accounts, the Bank does not trade securities for its own account, has no assets classified as trading assets, and does not engage in any derivative or hedging activities. This excludes any mortgage loan commitments (interest rate lock commitments) classified as derivatives for GAAP purposes. This applies to the Bank and both Core Business Lines. As stated in the Bank's policies, derivative contracts will be accounted for in accordance with Statement of Financial Accounting Standards 133 as amended and interpreted. As of 12/31/14, the Bank had no such positions outstanding.

### **Derivative and Hedging for the Retail Banking Core Business Line**

The Bank does not book trades by Core Business Line. As stated in the Bank's policies, derivative contracts will be accounted for in accordance with Statement of Financial Accounting Standards 133 as amended and interpreted. As of 12/31/14, the Bank had no such positions outstanding.

### **Derivative and Hedging for the Business Trust Core Business Line**

As noted above, the Bank does not book trades by Core Business Line.

## VI. List of Memberships in Material Payment, Clearing and Settlement Systems

In order to conduct its day-to-day operations and to serve clients, the Bank participates in payment, clearing and settlement systems. In certain cases, the Bank has direct membership in these payment, clearing and settlement systems whereas in other instances the Bank has indirect access to these systems through its affiliate, CS&Co.

Payment, Clearing, and Settlement Systems for Charles Schwab Bank				
System Name	Domestic or International	System Type	Member / Non- Member	Description
<b>FedACH</b>	Domestic	Payment	Participant via Participation Agreement	An electronic payment system which provides ACH services. FedACH is owned and operated by the Federal Reserve
<b>Fedline</b>	Domestic	Payment, Clearing, Settlement	Participant via Participation Agreement	An electronic access service that allows participant access to Fedwire Funds. Fedline is owned and operated by the Federal Reserve
<b>Fedwire</b>	Domestic	Payment	Participant via Participation Agreement	A funds transfer system owned and operated by the Federal Reserve
<b>FIS Profile</b>	Domestic	Payment, Settlement	Not Applicable	Profile is a payment system owned by FIS, which provides checks inclearing services
<b>Fiserv</b>	Domestic	Payment	Not Applicable	Fiserv is a payment system owned by Fiserv, which provides online bill payment services
<b>Interlink</b>	Domestic	Payment	Member	Interlink is a payments system owned by VisaUSA, which provides debit card services
<b>MoneyLink</b>	Domestic	Payment	Not Applicable	MoneyLink is a payment system owned by CS&Co., which provides ACH services
<b>MoneyPass</b>	Domestic	Payment	Member	MoneyPass is a payments system owned by Elan, which provides debit card services
<b>National Securities Clearing Corporation (NSCC)</b>	Domestic	Clearing, Settlement	Member	NSCC provides central counterparty clearing and settlement services for various securities transactions in the United States. NSCC is a wholly owned subsidiary of DTCC and is registered as a clearing agency with, and subject to regulation and supervision by, the SEC



Payment, Clearing, and Settlement Systems for Charles Schwab Bank				
System Name	Domestic or International	System Type	Member / Non- Member	Description
<b>Plus</b>	Domestic	Payment	Member	Plus is a payments system owned by VisaUSA, which provides debit card services
<b>Star</b>	Domestic	Payment	Member	Star is a payments system owned by First Data, which provides debit card services
<b>The Depository Trust Company (DTC)</b>	Domestic	Settlement	Member	DTC is a central securities depository and securities settlement system. DTC is a wholly owned subsidiary of DTCC
<b>VisaDPS</b>	Domestic	Payment	Member of Visa	VisaDPS is a payments system owned by VisaUSA, which provides debit card services
<b>VisaNet</b>	Domestic	Payment	Member of Visa	VisaNet is a payments system owned by VisaUSA, which provides debit card services
<b>Wells Fargo CEO</b>	Domestic	Payment	Not Applicable	Wells Fargo CEO is a payment system owned by Wells Fargo, which provides wire transfer services

## **VII. Description of Foreign Operations**

There are no cross-border, or foreign, elements applicable to the Bank.

## **VIII. Material Supervisory Authorities**

### **Primary Regulators**

The primary regulator for the Bank is the Office of the Comptroller of the Currency (“OCC”). Other regulators are:

- The Federal Deposit Insurance Corporation (“FDIC”)
- The Consumer Financial Protection Bureau (“CFPB”)
- Department of Labor (“DOL”)
- The Federal Reserve Board (with respect to Bank issues related to oversight of the Bank’s parent, CSC)

### **Primary Regulator for the Retail Banking Core Business Line**

The primary regulator for the Bank’s Retail Banking core business line is the OCC. Other regulators are:

- The Federal Deposit Insurance Corporation (“FDIC”)
- The Consumer Financial Protection Bureau (“CFPB”)

### **Primary Regulator for the Business Trust Core Business Line**

The primary regulator for the Bank’s Business Trust core business line is the OCC. Other regulators are:

- Department of Labor (“DOL”)
- Federal Deposit Insurance Corporation (“FDIC”)





## IX. Principal Officers

### Schwab Bank Principal Officers

The principal officers of Schwab Bank are listed in the following table:

Schwab Bank Principal Officers		
Name	Title & Function	Location
Paul Woolway	EVP – President and Chief Executive Officer	San Francisco
Angela Birmingham	SVP – Bank Operations, Oversight, Service & Technology	Phoenix
Mark Coffrini	SVP – Business Trust	San Francisco
John Gardner	VP – Chief Financial Officer	San Francisco
Patricia Kenny	VP – Risk Officer	San Francisco
Rene Kim	SVP – Deposit Products	San Francisco
Jeffrey Morgan	VP – Business Trust Operations	San Francisco
Peter Morgan	SVP – General Counsel	San Francisco
Nigel Murtagh	EVP – Risk Management	San Francisco
Bill Quinn	SVP – Treasurer	San Francisco
Jill Richards	VP – Chief Compliance Officer	Denver
Leona Tang	EVP – Internal Audit	San Francisco
Kenton Thompson	SVP – Lending Products & Distribution	San Francisco

## X. Corporate Governance Structure & Processes

Corporate governance and management oversight are fundamental to the Bank's Plan. This occurs through the Bank's existing risk management and senior management committees, ultimately reporting to the Bank's Board of Directors. Resolution planning and ongoing maintenance at the Bank is coordinated via a cross-functional team and is led by a senior officer at the Bank, SVP, Head of Bank Operations, Oversight, Service & Technology, who reports directly to the President & CEO of the Bank. As the responsible officer of the Plan, this senior officer has responsibility to ensure that the Bank is developing and managing appropriate policies and procedures to establish and maintain a credible Resolution Plan.

### Responsible Senior Officer

Angela Birmingham, as SVP, Head, Bank Operations, Oversight, Service & Technology is the senior officer responsible for the Bank's Resolution Plan. She is accountable for the development, maintenance, implementation, and filing of the Resolution Plan, as well as for establishing and maintaining appropriate governance and ongoing routines to support the Plan's requirements.

The Bank has established a dedicated governance structure, which includes a Steering Committee, Leadership Team, and Working Group to support on-going Resolution Plan requirements. These teams provide updates and receive approvals via the Bank's overall governance structure, including Management Committee and the Bank's Board of Directors.

### Governance & Integration

Resolution Planning ensures the Bank and its key leaders have a strong and consistent understanding of the Core Business Lines, Material Entities, and Critical Services. Through the ongoing annual planning processes, the Plan's Responsible Senior Officer works closely with the management teams of each of the Core Business Lines as well as with the management teams of Critical Service areas and other support functions to assess and maintain the Bank's resolution strategies.

The Bank's Plan is developed, managed, and overseen both through the Bank's existing risk governance framework and committee structures and through specialized Resolution Plan groups.

**Living Will Steering Committee:** A committee comprised of senior executives within Schwab who are responsible for the overall direction of the Program as well as communication to the Charles Schwab Bank Board of Directors. The Steering Committee meets as needed to provide input and guidance on Plan development and to ensure planning and updates are occurring as expected. Steering Committee members are:

- **Senior Vice President & Head, Bank Operations, Oversight, Service & Technology**

- President & CEO
- Vice President & CFO
- Senior Vice President & General Counsel
- Senior Vice President & Treasurer
- Vice President & Chief Compliance Officer

**Living Will Leadership Team:** The Steering Committee is supported by a Leadership Team responsible for overseeing the day-to-day execution of the program, making determinations on technical matters, and for communications to the Living Will Steering Committee. During the annual Resolution Plan update cycle, the Leadership Team meets at regular intervals to discuss deliverables and Program status. Leadership Team members are:

- **Senior Vice President & Head, Bank Operations, Oversight, Service & Technology**
- Vice President, Bank Oversight
- Vice President & CFO
- Vice President, Regulatory Liaison Office
- Managing Director, Trust Administration
- Vice President, Treasury
- Director, Regulatory Liaison Office
- Managing Director, Bank Business Continuity

**Living Will Working Group:** The Leadership Team is supported by a Working Group responsible for providing detailed information and subject matter expertise to update and maintain their respective sections of the Resolution Plan. The cross-organizational team consists of members from all key areas of the Bank. Working Group members are:

- **Managing Director, Bank Business Continuity**
- Managing Director, Bank Operations and Platform Technology
- Managing Director, Trust Administration
- Vice President, Bank Risk
- Vice President, Corporate Credit Research
- Vice President, Treasury
- Director, Regulatory Liaison Office
- Managing Director, Bank Third Party Outsourcing Oversight Management

**Bank Management Committee:** The Living Will committee and teams are integrated into the Bank's governance structure through the Bank's Management Committee and Board of Directors ("Board").

The Bank's Management Committee receives updates on regulatory and industry feedback or changes that impact the Bank's Resolution Plan. In addition, Living Will Steering Committee members that are also part of the Bank's Management Committee are responsible for reviewing and approving the Resolution Plan prior to submitting the Plan to the Board.

**Board of Directors:** The Bank's full Board of Directors reviews and approves the Resolution Plan annually. To prepare for this review and approval, Board members receive the Plan and supporting materials several weeks prior to the Board meeting. Board members also may request additional meetings to understand and challenge the Plan. In addition to the annual approval process, the Board receives updates on regulatory and industry feedback or changes as needed.

**Internal Audit:** The Bank's Internal Audit group performs a review of the Bank's Resolution Plan and provides recommendations that are subsequently reported to the Bank's Management Committee and to the Board of Directors.

### **Overview of Policies, Procedures, & Internal Controls**

The Bank Resolution Plan Policy ("Policy") serves as the overall framework the Bank follows in the development of its Resolution Plan and establishes requirements for the development and ongoing maintenance of the Bank's Resolution Plan. Specifically, the Policy enables Schwab Bank to:

- Establish roles and responsibilities, including identifying the Responsible Senior Officer, for developing and maintaining the Bank's Resolution Plan
- Meet all regulatory requirements for an accurate, credible, and on-time, annual filing of the Resolution Plan to the FDIC
- Notify the FDIC in a timely manner in the event of a material change that impacts the Resolution Plan

In addition to the Policy there are several procedures, processes, and internal controls used in the preparation of the Resolution Plan. Highlights, in addition to the details provided above include:

- **Prior Year's Resolution Plan:** The Bank's previously submitted Resolution Plan and related work is leveraged as a baseline for subsequent Plan updates
- **Monthly material change questionnaire:** An automated questionnaire is used to identify material changes within the Bank that may require interim Plan updates
- **Working Group Check-In Meetings:** During the annual Plan update cycle weekly check-in status meetings are held with the Working Group to track progress
- **Internal Audit Reviews:** Internal Audit performs a review of the Bank's Resolution Plan and provides recommendations subsequently reported to the Steering Committee, the Bank's Management Committee and to the Bank's Board of Directors as necessary
- **Plan Approval:** In order to ensure accuracy, consistency, and completeness of the information gathered during the update process, the Plan is reviewed in its entirety by the Living Will Steering Committee and other key officers across the Bank prior to

- submission to the Board of Directors for review and approval. The Board also conducts an annual review and approval of the Plan
- **American Bankers Association Peer Exchange:** To stay informed of industry best practices and obstacles to Plan preparation the Bank participates in ABA peer exchange meetings
  - **FDIC Engagement:** The Bank has periodic meetings with the FDIC to ensure the Bank has and continues to fully understand the FDIC expectations, both industry-wide and Schwab specific

## **XI. Material Management Information Systems**

The Bank uses several management information systems (MIS) to generate standard and ad-hoc reports that provide pertinent information on the financial health, risk and operations of the Bank and its Core Business Lines. Some specific areas where MIS systems may be used include:

- Management and financial reporting (e.g. dashboards)
- Operational reporting around regulatory, audit and legal needs
- Risk reporting on the investment, loan and deposit portfolios
- Reporting on capital and liquidity of the Bank

These MIS systems may take the form of systems or applications licensed or purchased from third-party vendors or developed in-house. The Bank maintains detailed business continuity documents for its technology platforms. Schwab's Operational Continuity (OC) Team supports, implements, and administers the Corporation's IT Infrastructure Recovery program. The OC team assists in the development and testing of disaster recovery plans.

In addition, third party providers maintain backup and recovery plans for critical systems used by the Bank. As part of the vendor on-boarding process, the Bank works with the Corporate Business Continuity & Incident Management (BCIM) to review the vendor's Business Continuity & Disaster Recovery Plans or Executive Summaries. BCIM and the Bank also review the vendor's response to a comprehensive due diligence questionnaire outlining their business continuity policies, plans, testing, and training.

As part of the Bank's Business Continuity and Outsourcing & Oversight Management Programs, vendors categorized as critical submit copies of their Business Continuity Plans and Disaster Recovery Test results annually to Schwab Bank. The Business Continuity Plans are reviewed for best practices and gaps that need to be addressed. Disaster Recovery test results are reviewed for issues that negatively affect Bank operations. Issues or gaps that are identified are tracked until resolution.

## XII. Resolution Plan Strategies

Resolutions strategies have been developed to meet the Rule requirements, and are tailored to the size, limited complexity, and low risk profile of Charles Schwab Bank.

The applicable resolution regime for the Bank is set forth in Sections 11 and 13 of the Federal Deposit Insurance Corporation and Federal Deposit Insurance Act.

The hypothetical insolvency and resolution scenarios incorporate the need to return insured deposits to depositors in a timely manner, maintain critical services in resolution, preserve franchise value, and minimize losses to the DIF (Depository Insurance Fund). As part of the Plan, various potential strategies have been identified for the hypothetical resolution of the Bank, including depositor payoff and purchase and assumption of the Bank by one or more buyers. As required by the Rule, the Bank has documented the feasibility and analysis conclusions related to having a strategy to separate from the Parent.

Based on the Bank's analysis and in accordance with the Rule, the Bank's Plan discusses two (2) realistic resolution strategies:

- 1) **Multiple Acquirer Strategy:** Resolution plan strategy for Schwab Bank to be sold to another bank or group of banks
- 2) **Liquidation Strategy:** Resolution plan strategy for Schwab Bank assets to be liquidated and deposits returned to depositors

Ultimately, it was determined that the preferred (and least costly) strategy is the sale of the Bank to one or more parties in a short period of time, as described more fully below.

### **Resolution Strategy: Multiple Acquirer Strategy in a Short Time Frame**

The preferred (and least costly) strategy is the sale of the Bank to one or more parties in a short period of time. Under this strategy, the Bank would sell the entire business, including both the Retail Banking line and the Business Trust line, to one or more purchasers.

As part of this process, a feasibility and valuation analysis was conducted by Schwab's Corporate Development department for the entire Bank as well as for the Bank's Core Business Lines. Potential purchasers of the Bank and its Core Business Lines were identified based on the following strategic rationale:

- a) **Deposits:** Certain financial institutions that have a relatively high mix of wholesale funding and may be interested in acquiring lower-cost retail deposits from Schwab; and
- b) **U.S. Market Presence/USD funding:** Foreign-based financial institutions that may be interested in acquiring a U.S. banking presence and U.S. dollar funding.

- c) In addition, there could be buyers only interested in the Trust business. Potential purchasers for other Material Entities include global financial institutions seeking to enter into or expand their existing securities broker-dealer or investment management businesses.

Relative to other potential strategies, the aforementioned strategy minimizes the impact of two factors which diminish franchise value. The first factor is continued shrinkage in the deposit base and the attendant lower premium to be collected on the deposit base. Related to that, as assets are sold to meet deposit runoff, it is expected that the pressure to sell will result in losses, which would be avoided if a transaction or transactions could be completed in a shorter period of time.

A sale to one buyer is the preferred solution under most cases if the right price can be obtained for the whole Bank because there is potentially just one transaction instead of many, although it is understood that due to capacity constraints on the part of potential buyers, even if the Bank could be sold in a short period of time, it would possibly be to multiple buyers.