

# The Charles Schwab Corporation Liquidity Coverage Ratio Disclosure Report

For the quarter ended September 30, 2023

The logo consists of a blue square containing the word "charles" in a white, lowercase, serif font, and the word "SCHWAB" in a white, uppercase, sans-serif font directly below it.

*charles*  
SCHWAB

*Own your tomorrow*

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## I. About The Charles Schwab Corporation

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in Westlake, Texas. CSC engages, through its subsidiaries (collectively referred to as Schwab or the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. CSC is regulated, supervised, and examined by the Board of Governors of the Federal Reserve System (Federal Reserve).

## II. Liquidity Coverage Ratio

The U.S. Liquidity Coverage Ratio (LCR) rule is designed to promote resiliency of the banking sector by requiring that certain large U.S. banking organizations (Covered Companies) maintain a liquidity risk profile which ensures that they have sufficient High Quality Liquid Assets (HQLA), such as central bank reserves, certain government securities, and eligible corporate debt that can be converted easily and quickly to cash, to survive a significant stress event lasting 30 days.

The LCR rule requires Covered Companies, including Schwab, to maintain an amount of HQLA that are unencumbered and controlled by the Covered Company's liquidity management function in an amount sufficient to meet a designated percentage of their total stressed net cash outflows over a prospective 30 calendar-day period, as calculated in accordance with the LCR rule.

Schwab is subject to the LCR and public disclosure requirement on a consolidated basis. On a quarterly basis the Company is required to disclose the average daily LCR over the quarter. The Company also discloses quantitative and qualitative information over certain portions of the Company's LCR components.

Under the LCR rule, Schwab is required to maintain HQLA to cover 100% of the total stressed net cash outflows on a daily basis. In addition, HQLA that are held at the Company's bank subsidiaries in excess of the subsidiaries' total net cash outflows, and are not transferable to non-bank affiliates, are excluded by rule from the Company's eligible HQLA.

<b>Average Weighted Amount (In Millions)</b>	<b>Quarter Ended September 30, 2023</b>	<b>Quarter Ended June 30, 2023</b>
HQLA <sup>1</sup>	60,781	65,738
Net Cash Outflows	51,351	50,965
LCR	118.63%	129.18%

<sup>(1)</sup> Excludes non-transferable liquidity at subsidiaries.

Schwab's LCR fluctuates period over period as a result of its liquidity profile, market conditions, client behavior, legal or regulatory developments, liquidity risk management limits, or other factors in the markets in which it operates. The Company's average LCR decreased between the second quarter of 2023 and the third quarter of 2023, from 129.18% to 118.63%, primarily driven by a decrease in cash held in client brokerage accounts and increase in margin loans and its corresponding impact on the broker-dealer segregated account inflows.

Although not subject to a separate public disclosure requirement, Schwab's depository institution subsidiaries are subject to LCR requirements and were in compliance with their respective LCR requirements during the periods presented.

### III. Liquidity Management at Schwab

The Company seeks to maintain client confidence in its balance sheet and the safety of client assets by maintaining high levels of liquidity and diversity of funding sources in both expected and stressed market conditions.

Liquidity Management (First Line of Defense) resides within the Company's Corporate Treasury function and is tasked with developing and implementing a liquidity and funding management strategy and managing liquidity in accordance with the Company's Board-approved risk appetite.

The Financial Risk Management (Second Line of Defense) function is responsible for independently assessing the effectiveness and adequacy of the Company's liquidity risk management processes in accordance with the Board-approved Liquidity Risk Policy.

These functions together with Internal Audit (Third Line of Defense), operate under a comprehensive liquidity risk management framework. This framework includes but is not limited to:

- **Early Warning Indicators** - to measure, monitor and anticipate potential liquidity risk that may be developing.
- **Cash Flow Projections** - to ensure adequate levels of liquidity and identify any potential mismatches that may arise from assets, liabilities, and contractual obligations.
- **Liquidity Stress Testing** - to ensure that the Company has sufficient liquidity and funding under a variety of adverse scenarios.
- **High-Quality Liquid Assets and Highly Liquid Assets Monetization** - to demonstrate the capability to monetize a sample of HQLA and HLA buffers to meet operational requirements.
- **Contingency Funding Plans** - to identify and document a range of events, their severity, available sources of funding, as well as the responsible crisis management team that would execute on the plan.
- **Regulatory Compliance** - to adhere to regulations like Regulation LL - Enhanced Prudential Standards and Regulation WW - Liquidity Risk Measurement, Standards and Reporting, among other applicable laws and regulations.

The Company's Liquidity Risk Management Framework and execution is driven by a Global Risk Committee, which is comprised of senior executives from each major business and control function. Senior management takes an active role in the liquidity risk management process. The Financial Risk Oversight Committee is responsible for approving Policy Limits, as well as Liquidity Risk Metrics. The Asset Liability Management Committee is responsible for reviewing these approvals. The risk metrics, with risk limits and tolerance levels, are established for key risk categories by the Global Risk Committee and its functional risk sub-committees. Additional details of the Company's liquidity risk management framework are provided in the "Risk Management" section of Company's annual form 10-K.

### IV. LCR Quantitative Disclosure

In the following table, the figures reported in the "Average Weighted Amount" column reflect the prescribed, industry-wide assumptions and haircuts defined by the LCR rule to determine a Covered Company's eligible HQLA, cash outflow amounts and cash inflow amounts. The figures reported in the "Average Unweighted Amount" column reflect gross values that are not included in the calculation used to determine the Company's compliance with LCR requirements.

01/07/2023 to 30/09/2023		Average Unweighted Amount	Average Weighted Amount
\$ in millions			
<b>HIGH-QUALITY LIQUID ASSETS (HQLA)</b>			
1	Total eligible HQLA of which: <sup>[1]</sup>	60,781	60,781
2	Eligible level 1 liquid assets	60,781	60,781
3	Eligible level 2A liquid assets	-	-
4	Eligible level 2B liquid assets	-	-
<b>CASH OUTFLOW AMOUNTS</b>			
5	Deposit outflow from retail customers and counterparties, of which:	300,848	65,175
6	Stable retail deposit outflow	7,387	222
7	Other retail funding	65,738	25,616
8	Brokered deposit outflow	227,723	39,338
9	Unsecured wholesale funding outflow, of which:	68,901	30,006
10	Operational deposit outflow	-	-
11	Non-operational funding outflow	68,901	30,006
12	Unsecured debt outflow	-	-
13	Secured wholesale funding and asset exchange outflow	10,674	5,753
14	Additional outflow requirements, of which:	4,618	688
15	Outflow related to derivative exposures and other collateral requirements	312	312
16	Outflow related to credit and liquidity facilities including unconsolidated structured transactions	4,305	376
17	Other contractual funding obligation outflow	1,940	1,940
18	Other contingent funding obligations outflow	0	0
19	<b>TOTAL CASH OUTFLOW</b>	<b>386,981</b>	<b>103,563</b>
<b>CASH INFLOW AMOUNTS</b>			
20	Secured lending and asset exchange cash inflow	31,562	17,295
21	Retail cash inflow	126	63
22	Unsecured wholesale cash inflow	13,149	13,112
23	Other cash inflows, of which:	21,742	21,742
24	Net derivative cash inflow	15	15
25	Securities cash inflow	174	174
26	Broker-dealer segregated account inflow	21,553	21,553
27	Other cash inflow	-	-
28	<b>TOTAL CASH INFLOW</b>	<b>66,578</b>	<b>52,211</b>
<b>AVERAGE AMOUNT</b> <sup>[2]</sup>			
29	HQLA AMOUNT		60,781
30	TOTAL NET CASH OUTFLOW AMOUNT EXCLUDING THE MATURITY MISMATCH ADD-ON		51,351
31	MATURITY MISMATCH ADD-ON		
32	TOTAL NET CASH OUTFLOW AMOUNT		51,351
33	LIQUIDITY COVERAGE RATIO (%)		118.63%

<sup>[1]</sup> Excludes non-transferable liquidity at subsidiaries

<sup>[2]</sup> Amounts reported may not equal the calculation of those amounts reported in rows 1-28 due to technical factors such as the application of the level 2 liquid asset caps, the total inflow cap, and for depository institution holding companies subject to subpart G, the application of the modification of total net cash outflows

## V. Components and Drivers of the Liquidity Coverage Ratio

### A. The Composition of Eligible HQLA

As shown in the below chart, the Company's total eligible consolidated HQLA was concentrated in Level 1 HQLA, on an average weighted basis, in the third quarter of 2023. The Company also has Level 2A in excess of 40% of the total eligible HQLA amount that are excluded by the rule from eligible HQLA. In addition, HQLA that are held at the Company's bank subsidiaries in excess of the subsidiaries' total net cash outflows, that are not transferable to non-bank affiliates, are also excluded by rule from the Company's eligible HQLA.

Quarter Ended		Average Weighted
September 30, 2023		Amount (In Millions)
Level 1	Cash on deposit at Federal Reserve Banks, U.S. Treasuries, U.S Government Agency Mortgage-Backed Securities (MBS)	60,781
Level 2A	U.S. Government-Sponsored Enterprise (GSE) agency MBS and Collateralized Mortgage Obligations (CMO)	-
Total HQLA		60,781

### B. Net Cash Outflows

The Company's cash outflow amounts for the quarter were predominantly driven by two categories: first, deposit outflows from retail customers and counterparties, primarily from affiliated brokered sweep deposit outflow; and second, from non-operational funding outflow, which represents deposit outflows associated with counterparties, that due to deposit size, are categorized under the LCR rule as wholesale counterparties. These two categories accounted for 92% of weighted cash outflows.

Offsetting a portion of cash outflows are cash inflows, which were predominantly driven by three categories: first, secured lending and asset exchange cash inflow, which is concentrated in Schwab's broker-dealer business representing customer margin loan repayments; and second, broker-dealer segregated account inflow, which is the fair value of the broker-dealers actual segregated assets held under the customer protection rule (SEC Rule 15c3-3) as of the calculation date, less the fair value of the required balance of the customer reserve account in a period of prescribed stress; and third, unsecured wholesale cash inflow which represents short term investments of broker-dealer working capital. Together these categories accounted for substantially all of the calculated cash inflows.

### C. Concentration of Funding Sources

Schwab has a comprehensive liquidity risk management program in place to ensure funding is available to meet obligations to clients and other ongoing commitments. Schwab's primary source of funds is cash generated by client activity which includes bank deposits and cash balances in client brokerage accounts. Other sources of funds include maturities and sales of investment securities, repayments on loans, securities lending of assets held in client brokerage accounts, and Federal Home Loan Bank borrowings. The banking subsidiaries also have access to funding from external financial institutions in repurchase agreements collateralized by investment securities and the ability to issue Certificates of Deposits as a source of short-term liquidity. Long-term needs are also met by funding provided by long term debt issuances by CSC in the capital markets.

#### **D. Derivative Exposures and Potential Collateral Calls**

Schwab uses cleared interest rate swaps primarily to manage interest rate risk exposures that arise from business activities. The Company's net derivative outflows consist of variation margin, initial margin and historical potential derivative valuation changes as specified by the LCR rule. The Company's derivative exposure did not constitute a material portion of net cash outflows in the third quarter of 2023.

#### **E. Currency Mismatch in the Liquidity Coverage Ratio**

Schwab does not have material exposure to a currency mismatch.