

Fall Business Update

October 18, 2019

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Introduction

Rich
Fowler

Senior Vice President
Investor Relations

Agenda

Peter Crawford, EVP and Chief Financial Officer

Walt Bettinger, President and Chief Executive Officer

Forward-Looking Statements

This presentation contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements that refer to expectations, projections or other characterizations of future events or circumstances and are identified by words such as “believe,” “expect,” “will,” “may,” “should,” “could,” “continue,” “growth,” “remain,” “drive,” “lead,” “consistent,” “investment,” “build,” “sustain,” “enhance,” “estimate,” “anticipate,” “opportunity,” “potential,” “position,” “moderate,” “target,” “commitment,” “upside,” “increase,” and other similar expressions. These forward-looking statements relate to: disruptive actions; growth in the client base, client accounts and assets; growth in revenues, earnings, and profits; stockholder value; investments to fuel and support growth, serve clients, and drive scale and efficiency; expense growth; AOCI; Tier 1 leverage ratio operating objective; net interest margin; impact of commission reductions and position eliminations; client cash sorting; balance sheet contraction; key initiatives; the company’s acquisition of certain assets of USAA’s Investment Management Company (IMCO), including timing of closing and entering into an exclusive referral agreement; the financial impact of the USAA IMCO acquisition, including capital requirements; the growth and penetration of the USAA member base for the referral agreement; capital management; capital returns to stockholders; mix of investment for the future and current profitability; competitive advantages; client use of advisory solutions; inflows from RIAs; and financial and competitive positioning.

These forward-looking statements, which reflect management’s beliefs, objectives, and expectations as of today, are estimates based on the best judgment of the company’s senior management. Achievement of the expressed beliefs, expectations, and objectives is subject to risks and uncertainties that could cause actual results to differ materially from those beliefs, expectations, or objectives. Important factors that may cause such differences are discussed in the company’s filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Other important factors include general market conditions, including the level of interest rates, equity valuations, and trading activity; the company’s ability to attract and retain clients and RIAs and grow those relationships and client assets; competitive pressures on pricing, including deposit rates; the company’s ability to develop and launch new and enhanced products, services, and capabilities, as well as enhance its infrastructure, in a timely and successful manner; client use of the company’s advisory solutions and other products and services; client sensitivity to rates; the level of client assets, including cash balances; the company’s ability to monetize client assets; capital and liquidity needs and management; the impact of changes in market conditions on revenues, expenses, and pre-tax profit margin; the company’s ability to manage expenses; failure of the parties to satisfy the closing conditions in the USAA IMCO purchase agreement in a timely manner or at all, including regulatory approvals and the implementation of conversion plans; regulatory guidance; the effect of adverse developments in litigation or regulatory matters and the extent of any charges associated with legal matters; and any adverse impact of financial reform legislation and related regulations.

The information in this presentation speaks only as of **October 18, 2019** (or such earlier date as may be specified herein). The company makes no commitment to update any of this information.

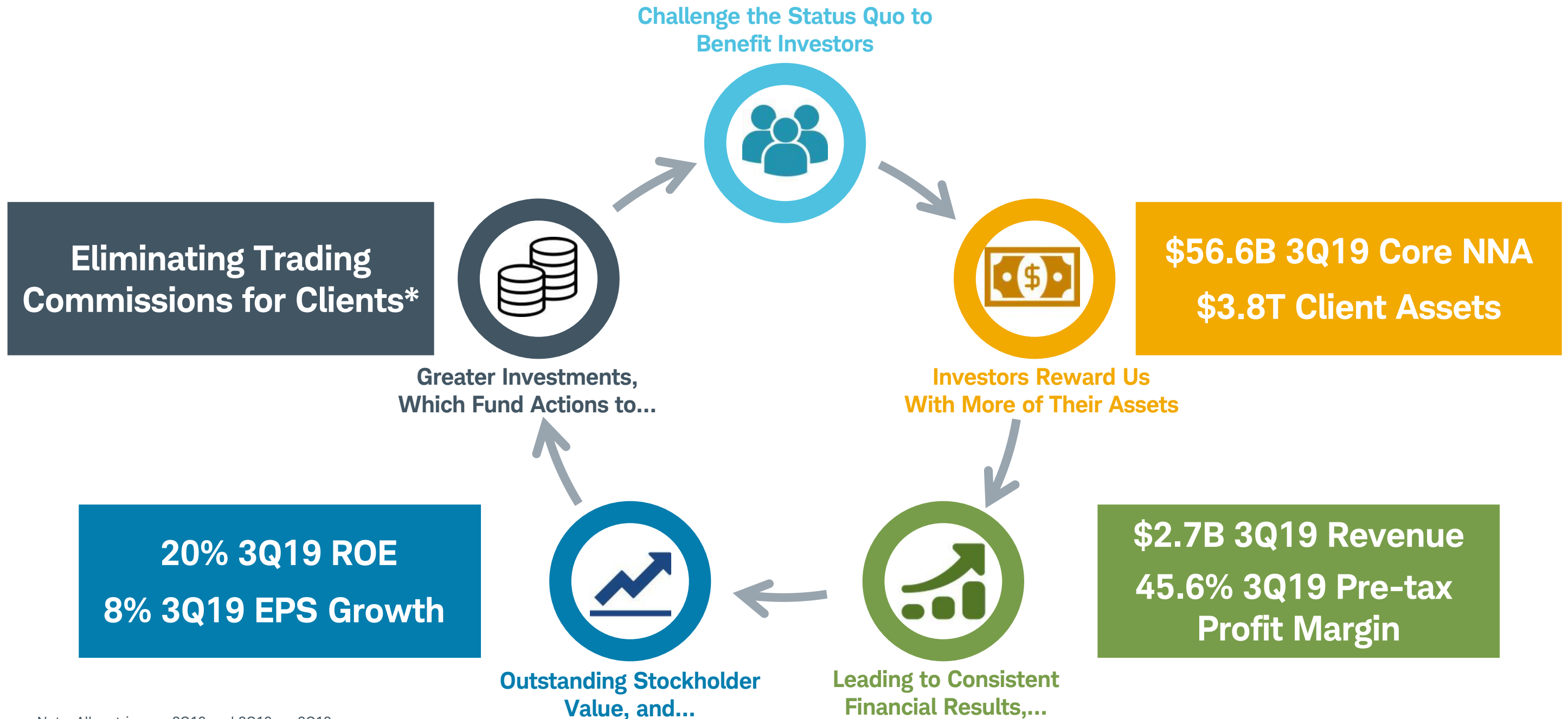
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Peter Crawford

Executive Vice President and
Chief Financial Officer

Schwab's Virtuous Cycle continued to deliver strong business momentum...

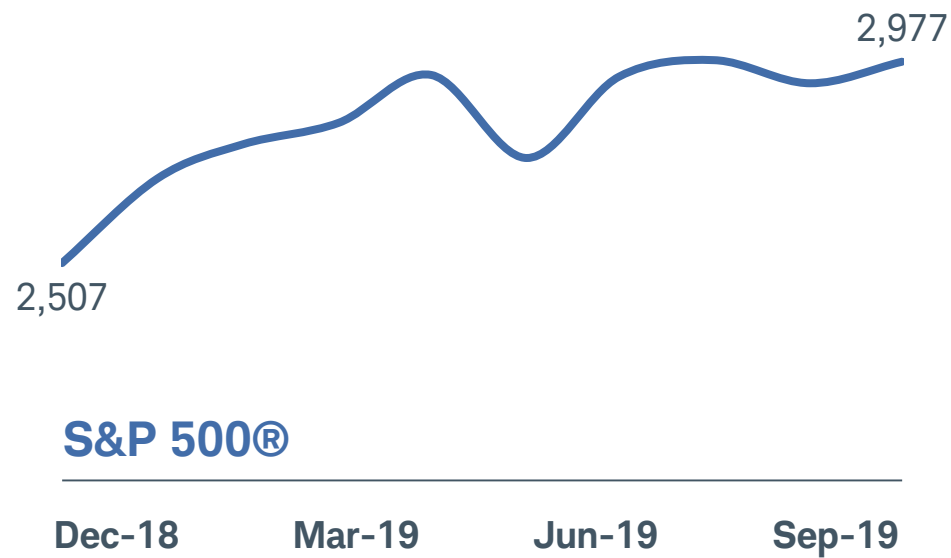


Note: All metrics are 3Q19 and 3Q19 vs. 3Q18.

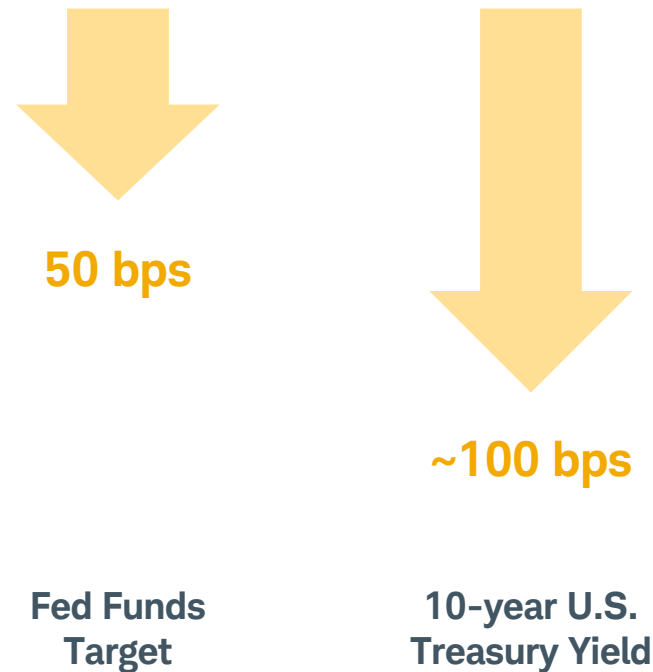
*Commissions for all U.S. and Canadian-listed stocks, ETFs, and options online and mobile trades reduced from \$4.95 to \$0.00; options trades are still subject to the standard \$0.65 per-contract fee.

...amidst a more difficult environment.

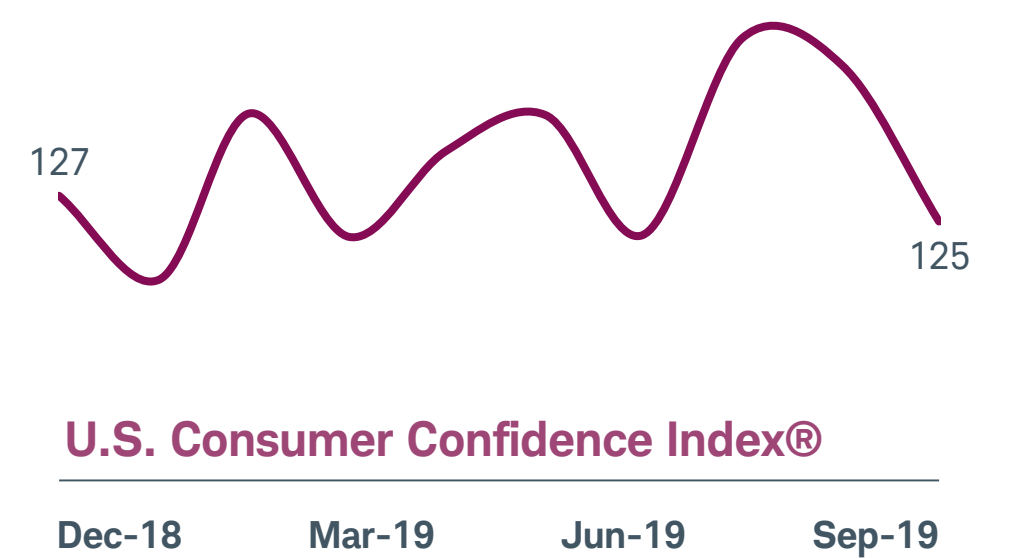
Equity markets continued to grind higher...



...as pressure on interest rates intensified...

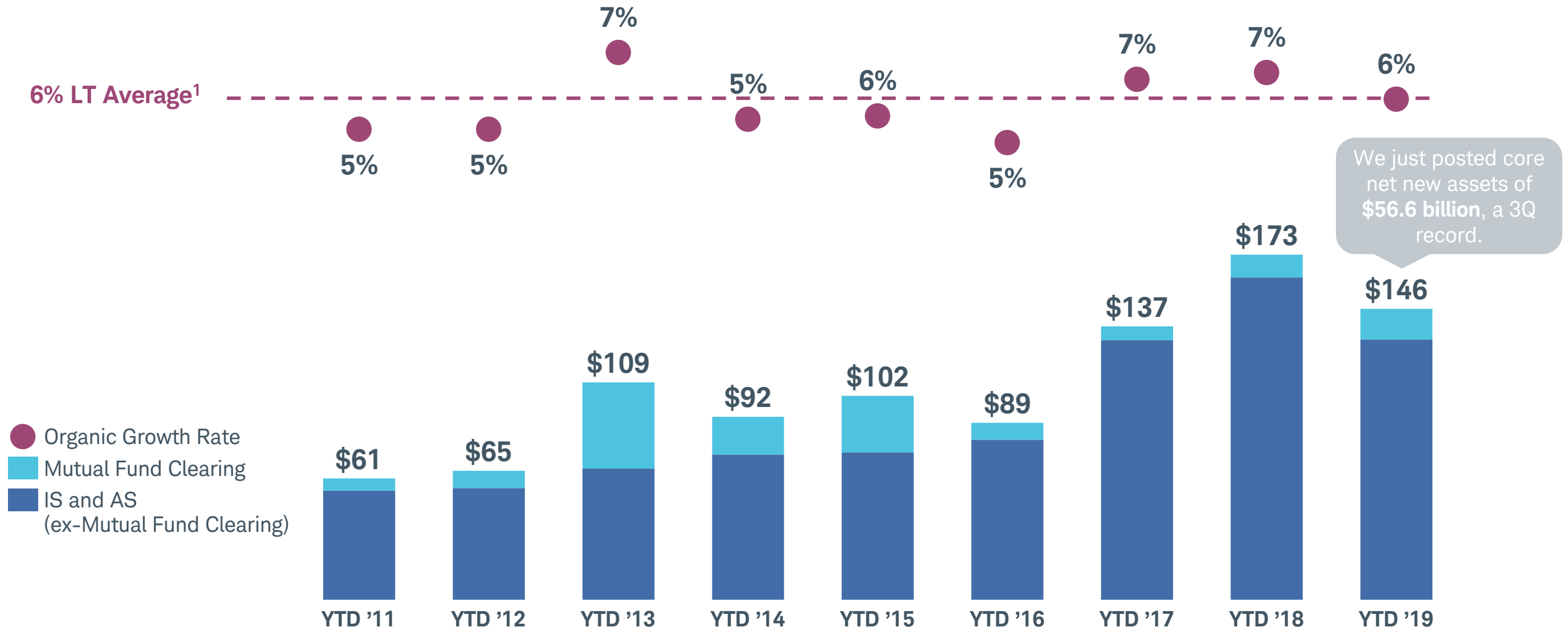


...and U.S. consumer confidence retreated again.



YTD '19 asset gathering remained robust.

Core Net New Assets (\$B) and Annualized Organic Growth Rate (%)



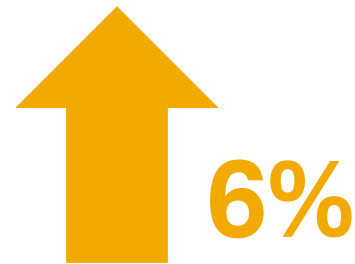
Notes: YTD = year-to-date. Core net new assets = net new assets before significant one-time flows, such as acquisitions/divestitures or extraordinary flows (generally greater than \$10 billion) relating to a specific client. These flows may span multiple reporting periods. 1. Long-term (LT) average covers 10 years.

Other business fundamentals demonstrated continued strength,...

3Q19 vs. 3Q18 EOP

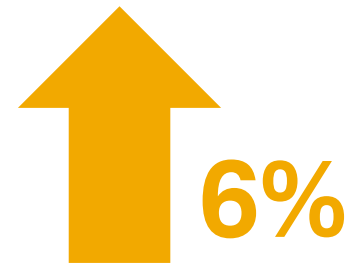
**Total Active
Brokerage Accounts**

12.1 million



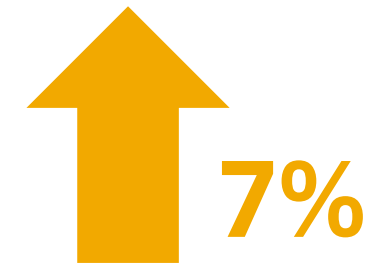
**Total
Client Assets**

\$3.8 trillion



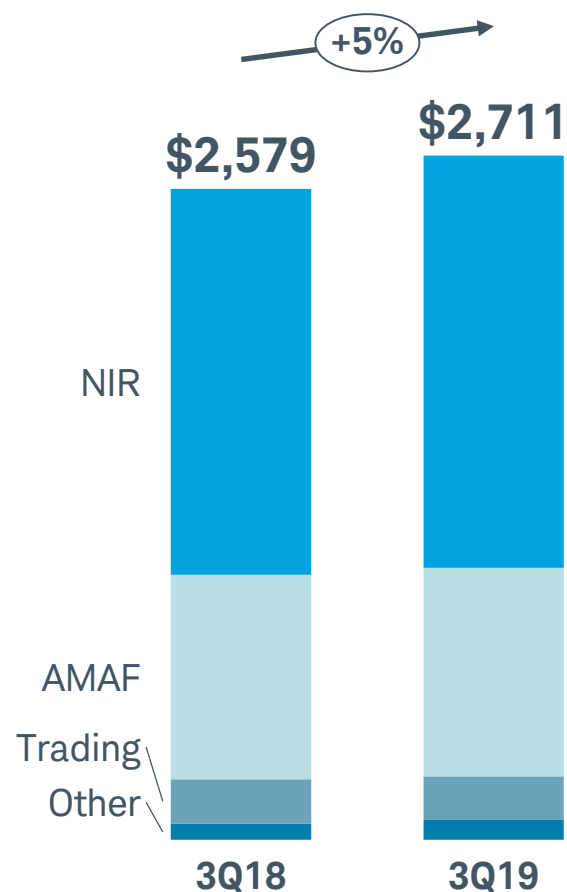
**Total
Advised Assets**

\$2.0 trillion



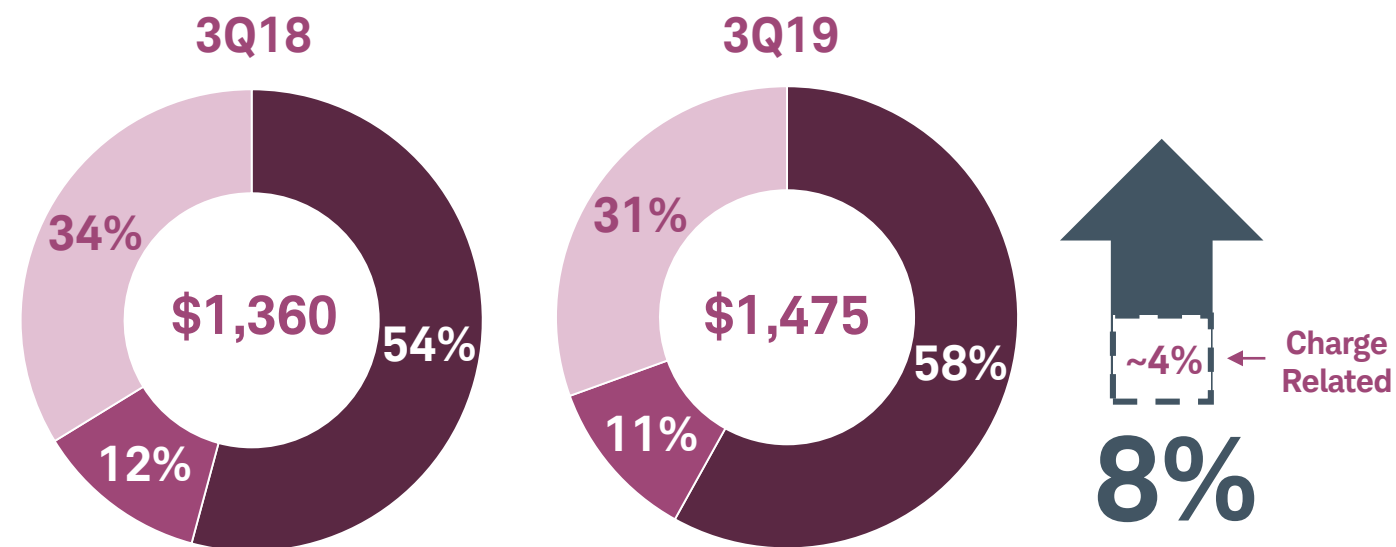
...helping to drive solid top-line results, and by moderating expense growth,...

Total Net Revenues (\$M)



- **Net interest revenue rose 7%**, largely a result of generally higher investment yields and higher client cash allocations
- **Asset management and administration fees increased 2%** due to higher purchased money fund and advisory solution balances
- **Trading revenue declined 2%** as a result of a decrease in average revenue per trade, which more than offset slightly higher activity

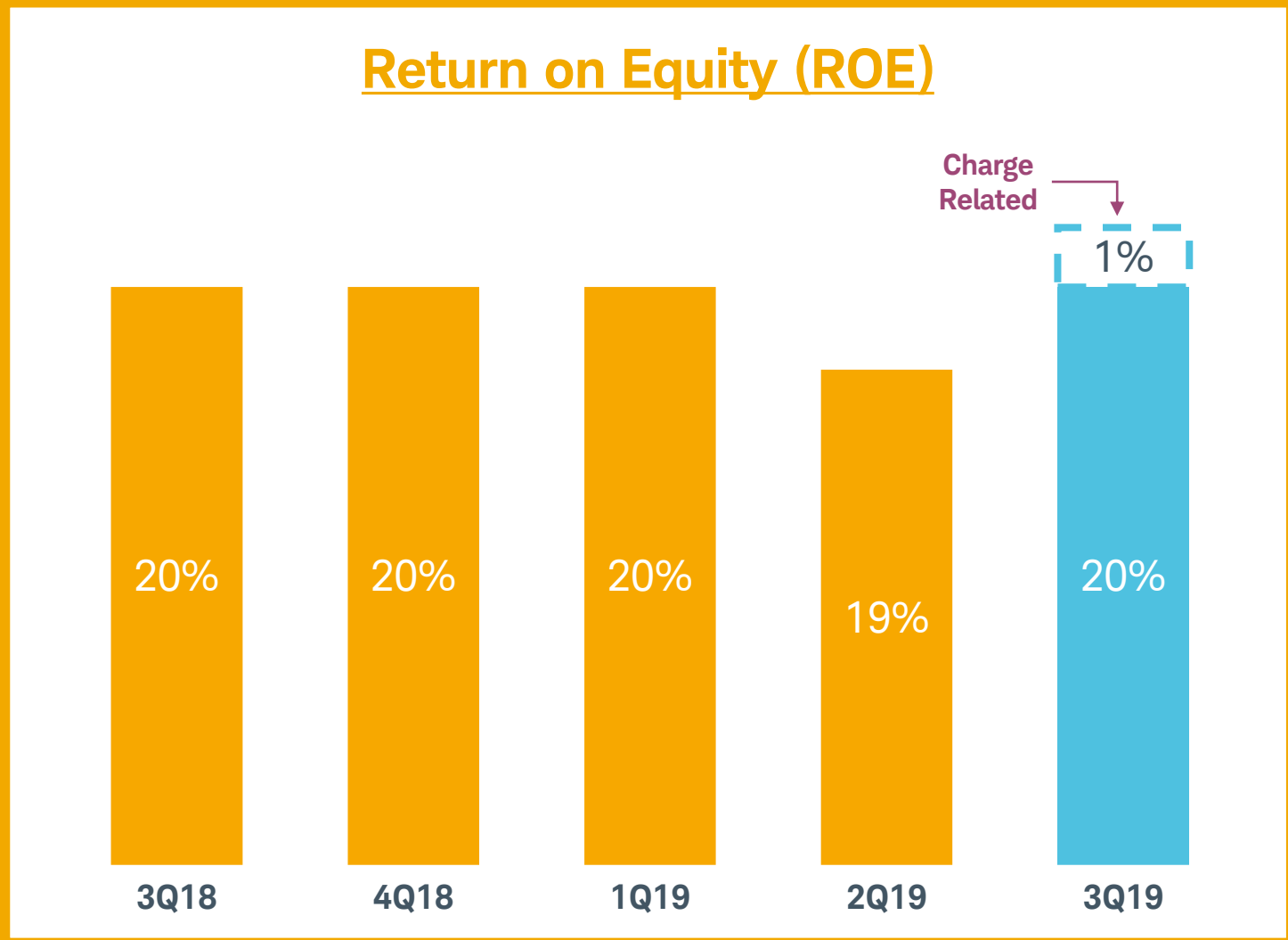
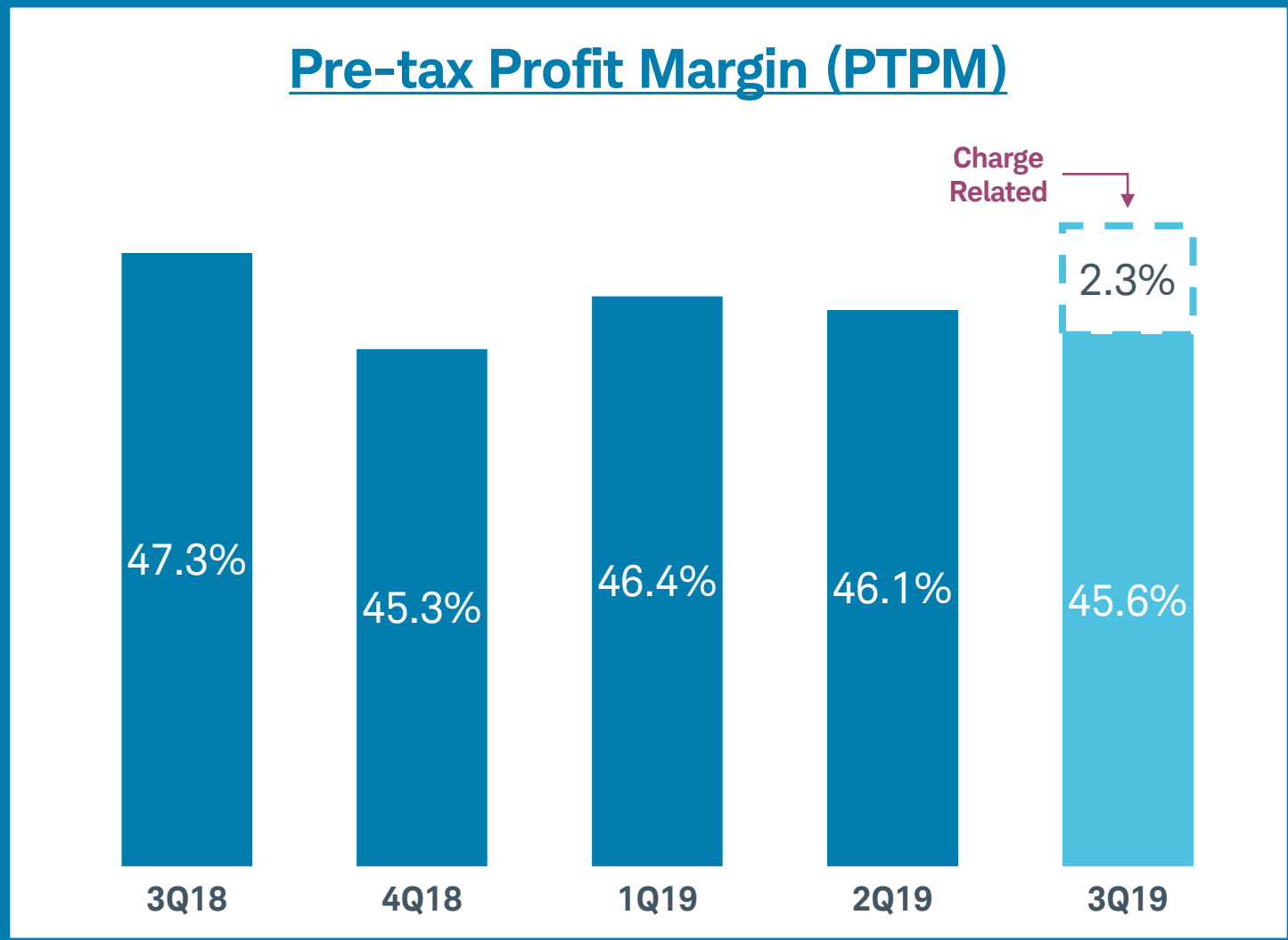
Total Expenses (\$M)



- Compensation and benefits included **\$62 million in severance charges** relating to position eliminations, which contributed roughly half of year-over-year growth
- Non-compensation expenses reflect **ongoing investments to drive further efficiency and scale**

Total revenue and net income represent 3Q records

...we achieved a 45.6% pre-tax margin and a 20% ROE for the quarter.



We have delivered a 45%+ PTPM and 19%+ ROE for six consecutive quarters.

During 3Q, the balance sheet expanded for the first time this year,...

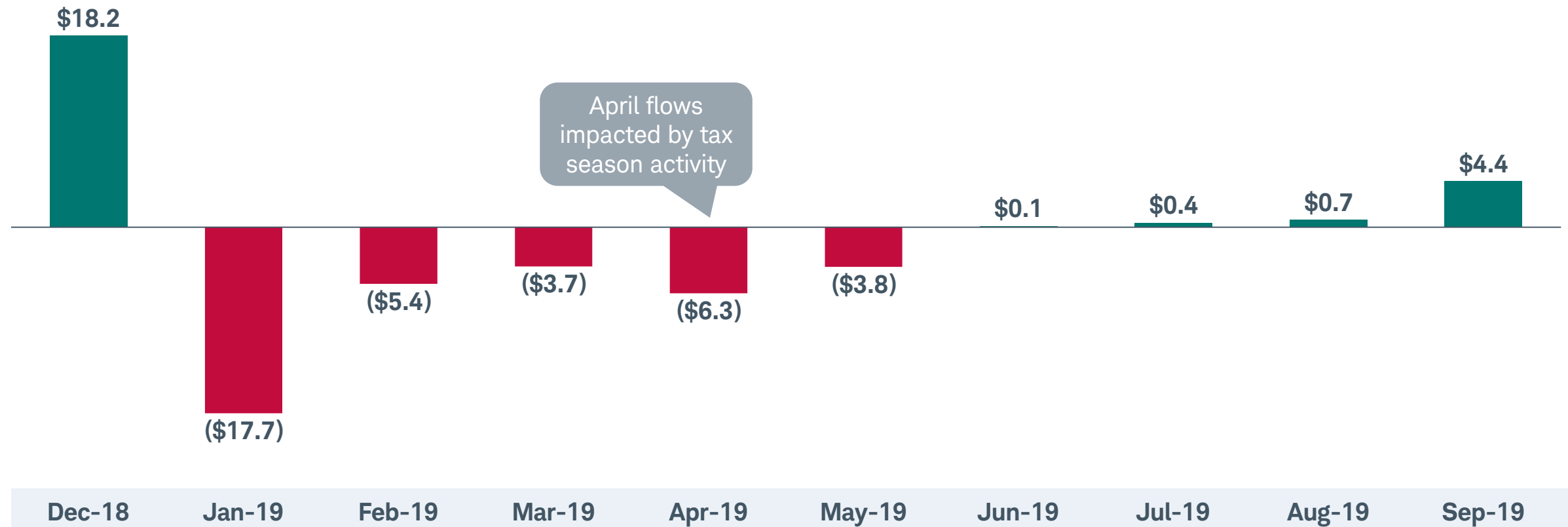
| (\$M, EOP) | 3Q18 | 2Q19 | 3Q19* |
|--------------------------------------|-----------|-----------|------------------|
| Total Assets | \$272,102 | \$276,321 | \$278,987 |
| Bank Deposits | \$213,408 | \$208,375 | \$209,327 |
| Payables to Brokerage Clients | \$27,851 | \$31,013 | \$35,622 |
| Long-term Debt | \$5,790 | \$7,424 | \$7,427 |
| Stockholders' Equity | \$20,834 | \$21,320 | \$21,354 |
| Parent Liquidity | | | |
| Parent Liquidity | \$4,079 | \$4,845 | \$5,109 |
| Tier 1 Leverage Ratio | 7.5% | 7.3% | 7.3% |

- Balance sheet expansion was **powered by growth in client cash balances**
- Average **interest-earning asset levels rebounded** during the quarter, in-line with 2Q19
- We **repurchased 19.9 million shares** for ~\$770 million, bringing aggregate repurchases to more than 49 million shares for \$2 billion under our current authorization
- A combination of organic balance sheet growth, strong capital formation, and slight AOCI tailwinds kept the **Tier 1 Leverage Ratio above our target operating objective**

Notes: AOCI = Accumulated Other Comprehensive Income. Parent Liquidity equals Parent Working Capital plus Level 1 Securities (market value) as defined by the Liquidity Coverage Ratio rule. Tier 1 Leverage Ratio is based on Tier 1 Capital, which is End of Period Capital (Stockholders' Equity less certain regulatory adjustments) divided by Average Total Consolidated Assets (less certain regulatory adjustments). Prior to 2019, CSC elected to opt-out of the requirement to include most components of Accumulated Other Comprehensive Income in Common Equity Tier 1 Capital. The Tier 1 Leverage Ratio for 2018 is presented on this basis. * Preliminary.

...driven by organic inflows into client cash positions.

Organic Net Flows to Balance Sheet Cash (\$B)¹



Notes: Includes both bank and broker-dealer client cash positions. 1. Organic flows exclude impact of bulk transfers.

Considerations for the balance of 2019 and 2020:

Revenues and Expenses

2019

- With a December rate cut, **NIM expectations likely soften into the mid 230s bps**
- In addition to typical 4Q expense seasonality:
 - We expect to realize essentially a **full quarter impact of recent commission reductions**
 - Impact from position eliminations will also be felt throughout the quarter
- Anticipate full year **results to finish within the range of scenarios** outlined during the Summer Business Update
 - Revenue growth: 5-6%
 - Expense growth: ~5%

2020

- We are currently developing our 2020 plan and will continue to assess the revenue outlook **pending the Fed's December meeting and market expectations for future rate cuts**
- Expense planning is still preliminary:
 - Future spending will ensure we **support the growth** of our business and continue to make progress on key initiatives intended to **drive productivity and scale**
 - Continue trajectory toward long run target of **low-to-mid single digit expense growth**
 - Expect about **half a year of USAA revenue and expense** in addition to ongoing financials

Capital

- We anticipate our 2019 balance sheet contraction to be around 3-4% as client cash sorting dynamics continue to wane; going forward, we **look for organic activity to once again be the primary growth driver**
- Our approach to **capital management remains unchanged**, with the first priority being to support ongoing business growth followed by opportunistic return of excess capital
- As we move into 2020, we will remain **cognizant of capital requirements relating to the USAA transaction**

We continue to operate from a position of strength.

- Our business momentum helped us achieve our strongest third quarter ever
- We believe applying ongoing judgment in maintaining the right mix of investment for the future and current profitability will maximize long-term stockholder value
- We operate the company to be resilient in any economic scenario – our commitment to operating efficiency, solid capital, strong liquidity, and managing risk is unyielding

Our priorities remain unchanged:



Continued business growth through our client-first strategy



Solid revenue growth through multiple sources



Expense discipline leading to sustainable performance

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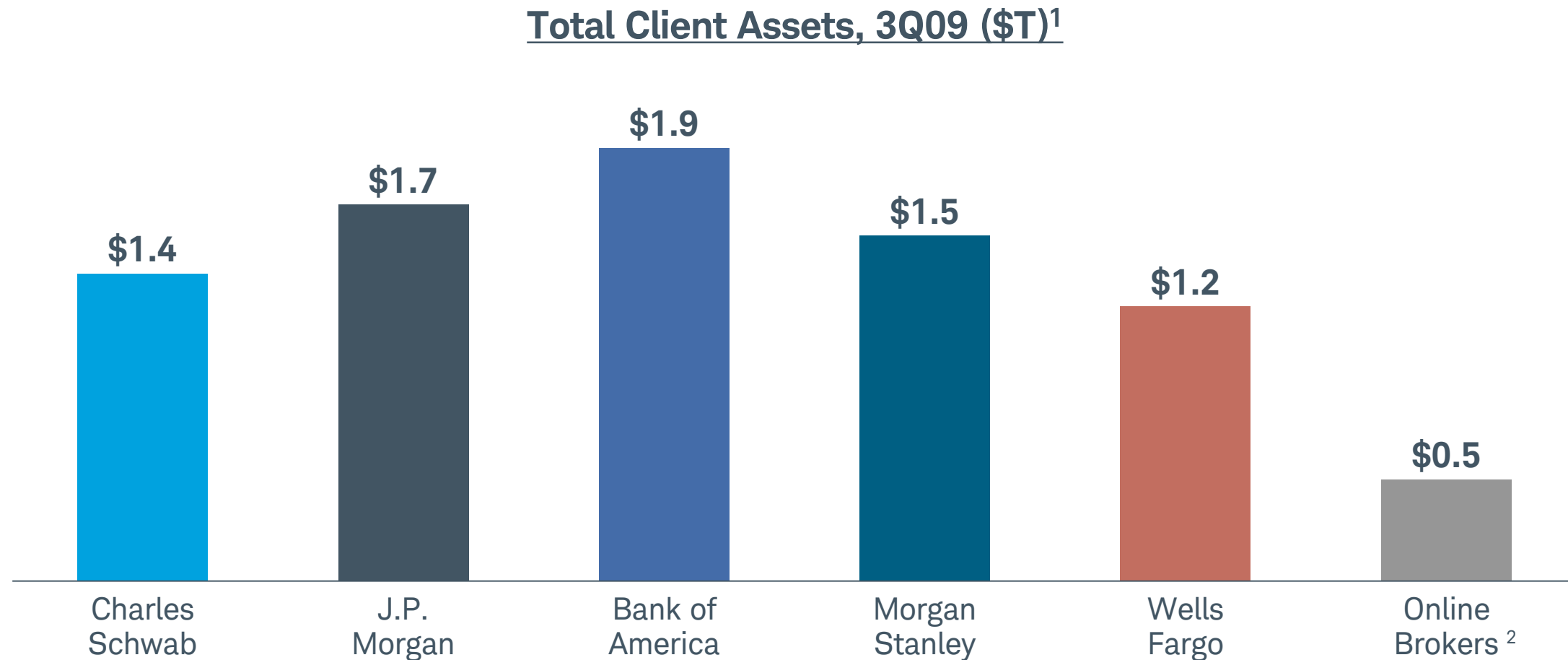
Walt
Bettinger

President and
Chief Executive Officer

Our relentless focus on our clients continues to propel the business forward.

- Schwab is a **trusted partner**, especially in times of heightened uncertainty.
- We **remain on offense**, pressing important competitive advantages of size, scale, and operating efficiency to help drive profitable growth.
- Our **commitment to challenge the status quo** and disrupt the industry on behalf of clients endures through all environments.

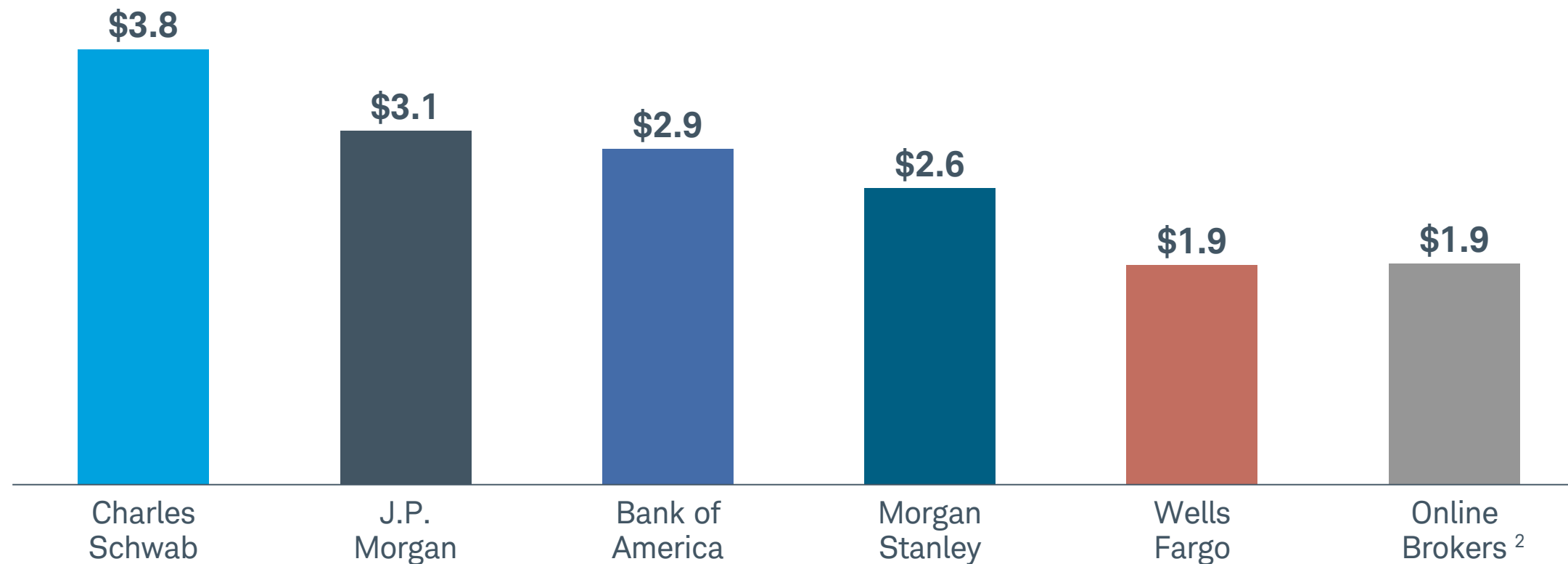
Clients view Schwab as a trusted partner through all environments,...



Notes: Sourced from company filings with no adjustments made for M&A activity. 1. Represents client asset levels for respective wirehouse wealth management segments. 2. Includes client assets from large publicly-traded brokers (AMTD and ETFC).

...helping us grow client assets faster than select publicly-traded peers.

Total Client Assets, Current (\$T)¹



Notes: Sourced from company filings with no adjustments made for M&A activity. 1. Represents client asset levels for respective wirehouse wealth management segments. 2. Includes client assets from large publicly-traded brokers (AMTD and ETFC) as of August 2019.

Demand for help and guidance persists across our wide base of individual investor clients...

We are attracting younger, more affluent clients.

Utilization of advisory solutions is building momentum across all Retail clients,...

...driven by clients seeking advice at Schwab for the first time.

NTR Household <40 years



57%

+6% vs. 3Q18

Total Affluent Households



~900K

+3% vs. 3Q18

Avg. Household AUM in Advice



~\$615K

+3% vs. 3Q18

Total Retail Advice Penetration

19.5%

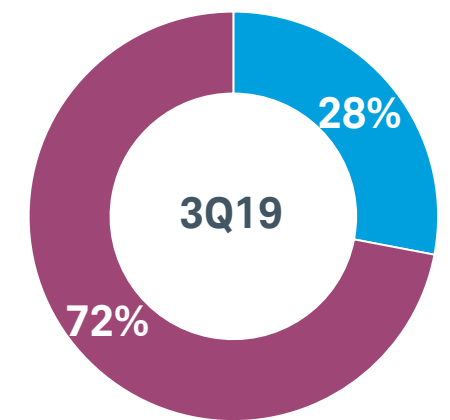
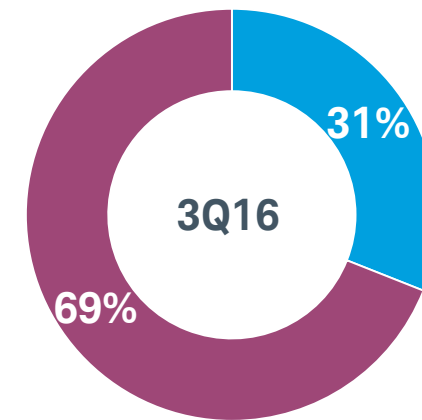
As of 3Q19



17.8%

As of 3Q16

Source of Net Asset Flows to Advice¹



■ New-to-Schwab HH

■ New-to-Advice HH

Notes: Affluent = clients with more than \$250,000 in assets. NTR = New-to-Retail. AUM = Assets under management. HH = Household. New-to-Schwab = NTR households that have opened an account with the last twelve months. New-to-Advice = flows from existing households into Retail advisory solutions. 1. Includes net flows to all Retail advisory solutions.

...and we support RIAs as they gather significant net new assets.

We expanded the ongoing “Independent Difference” campaign, which advocates for advisors and raises awareness of the benefits of independence among HNW

At the same time, we are seeing a resurgence of inflows from both new and existing RIAs, helping to drive net new asset growth

2016



Debuted national advertising campaign in print & digital

2017



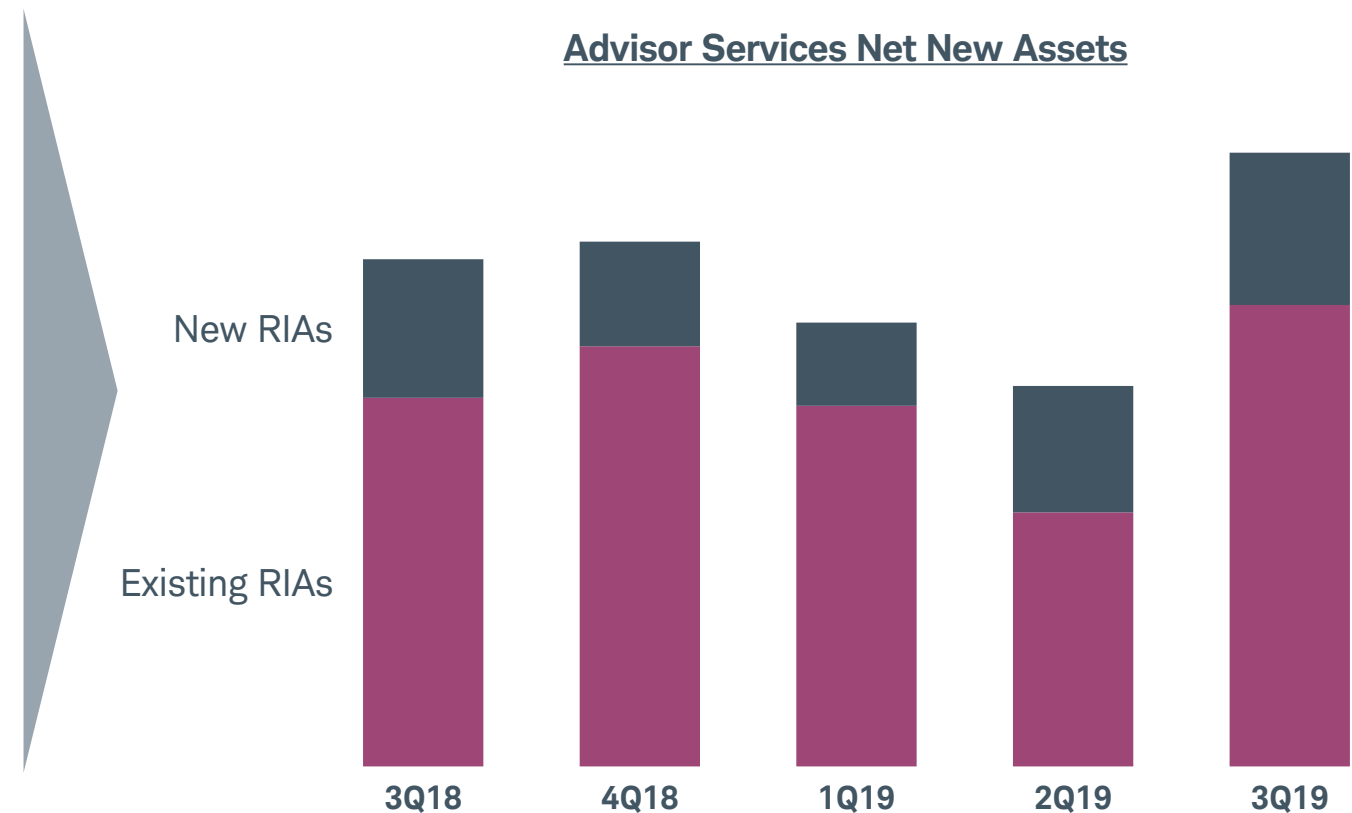
Expanded to TV Commercials on CNBC & Fox Business

2019



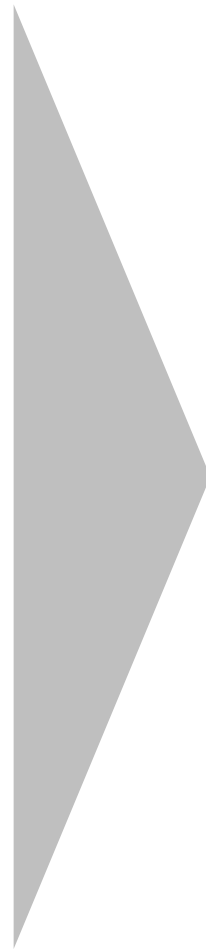
New TV Commercials on Golf Channel, CNBC, Fox Business & Bloomberg

With 1 billion+ views, these ads are driving millions to our website to learn more about the benefits of working with an RIA.



We remain on offense, executing on key initiatives to build more scale...

Key efficiency investments are already producing gains and enhancing the client experience



Improved client self-service capabilities have already generated **4M+ Minutes Saved¹** thus far, with exponential upside going forward



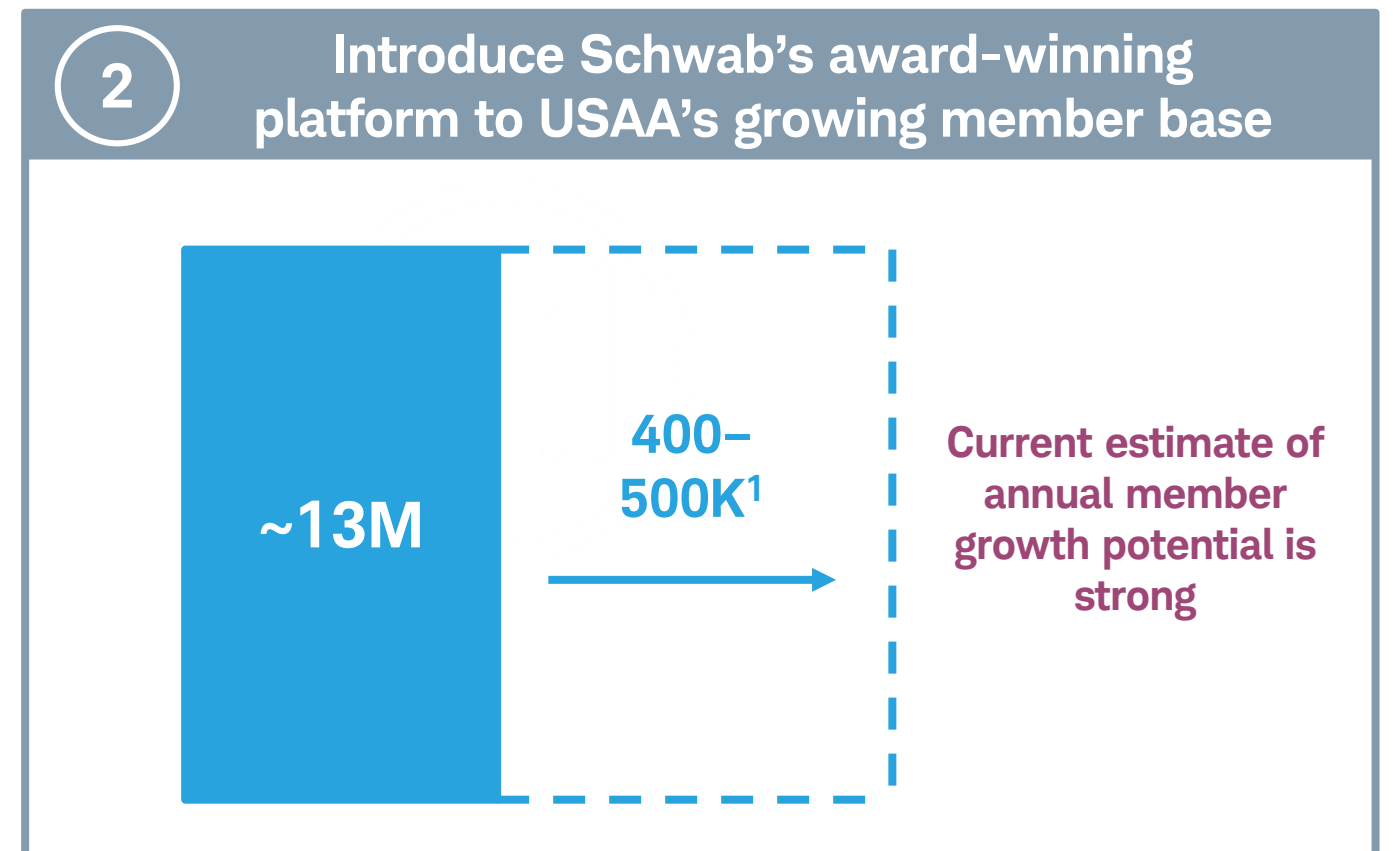
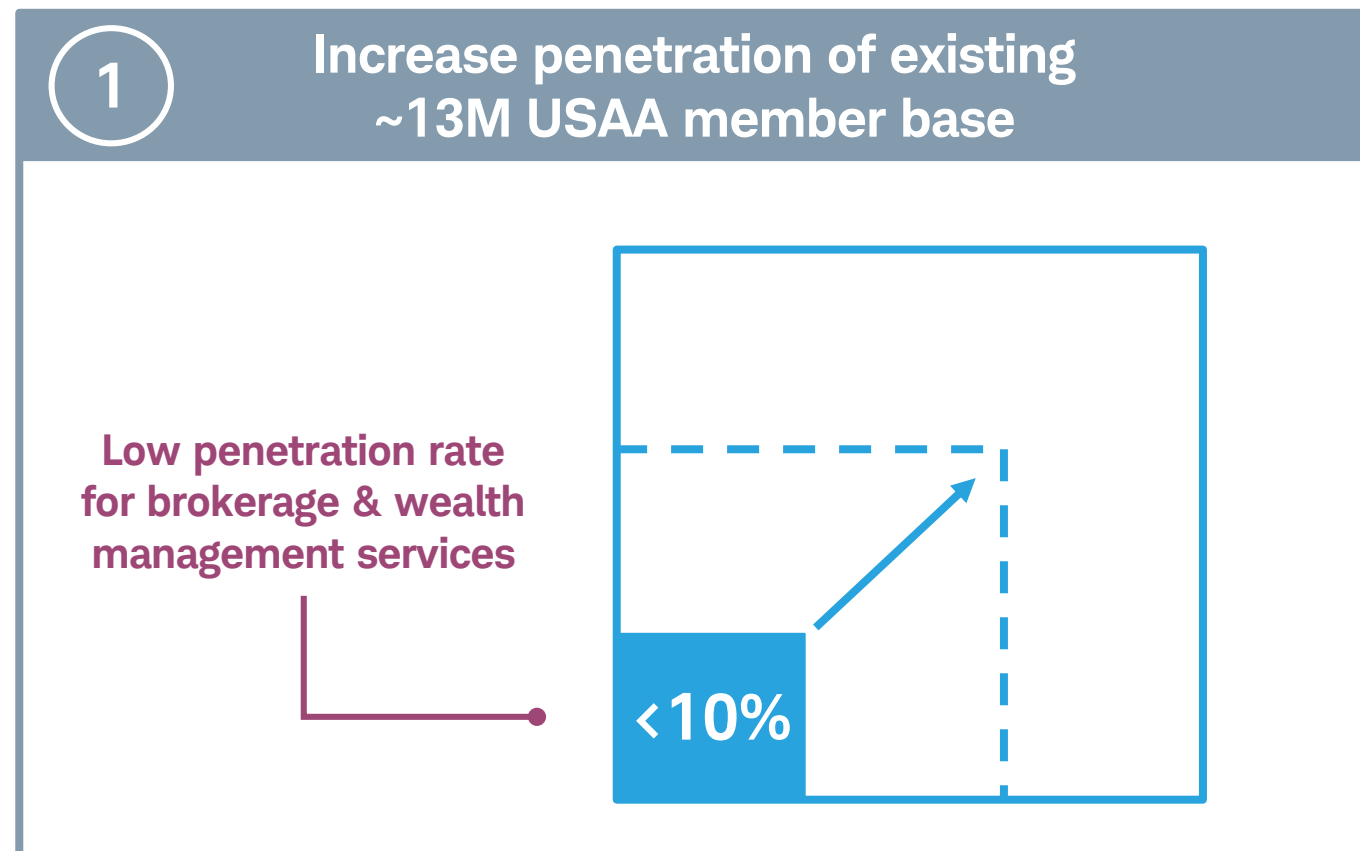
Enhancements to Institutional Intelligent Portfolios onboarding, password reset, and other servicing features has **created significant capacity**



Continuous mobile app updates have helped drive a **~20% increase in mobile users²** to 1M+ per month

...while also seeking to enhance our long-term growth trajectory.

Exclusive brokerage and wealth management referral arrangement with USAA is expected to provide additional growth opportunities via two channels:



We further disrupted the industry on behalf of clients by offering zero-commission online trading¹...

| | Prior to 10/7/19 | Current |
|-----------------|---------------------------------|------------------------------|
| U.S. Stocks | \$4.95 | \$0 |
| ETFs | \$4.95 | \$0 |
| Options | \$4.95 + \$0.65 per contract | \$0 + \$0.65 per contract |
| Account minimum | \$0 | \$0 |

These actions remove the final barrier to making investing accessible to everyone

...while continuing to deliver a broad array of capabilities to every client.



Superior client service & support



Extensive range of investment products & services



Robust research & analytical tools

**SATISFACTION
GUARANTEE**

Unwavering client-centric approach



#1 in Investor Satisfaction with DIY Self-Directed Services



Highest in Customer Satisfaction with Direct Retail Banking



#1 Overall in Customer Service, Low-Cost/Free ETF Trading and Trade Reliability



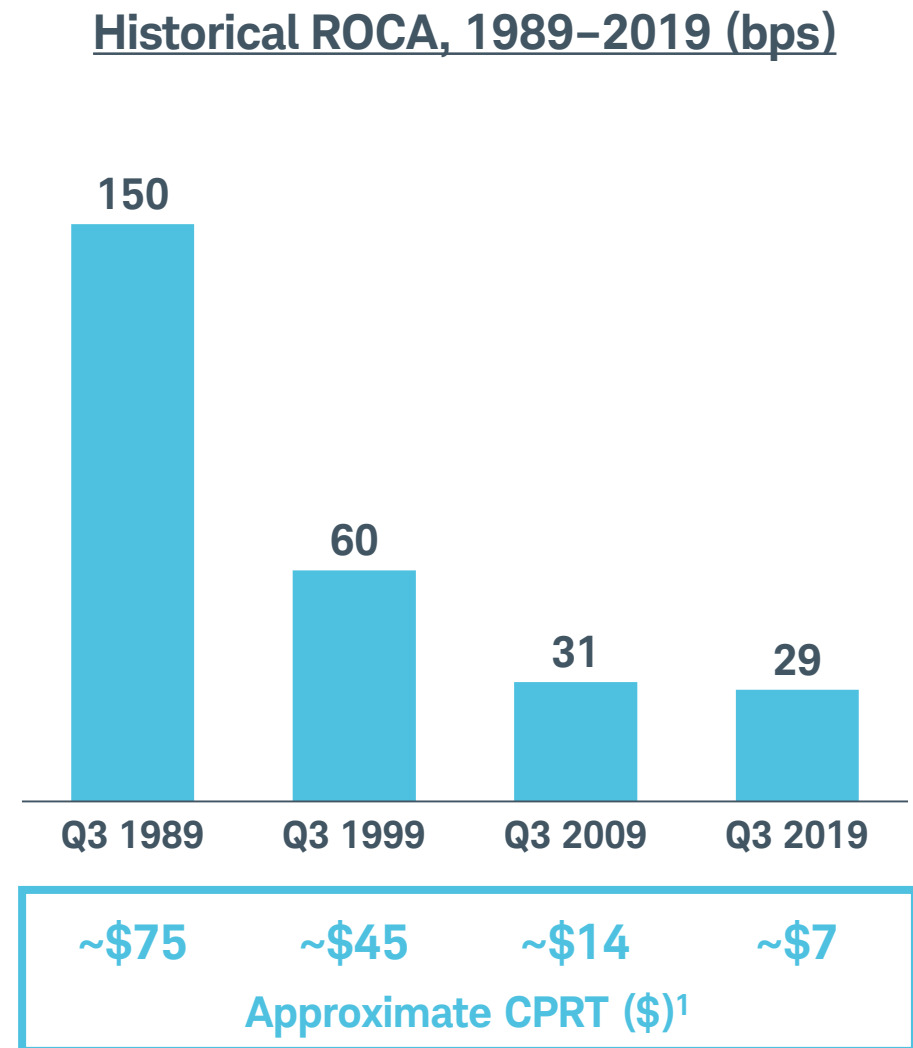
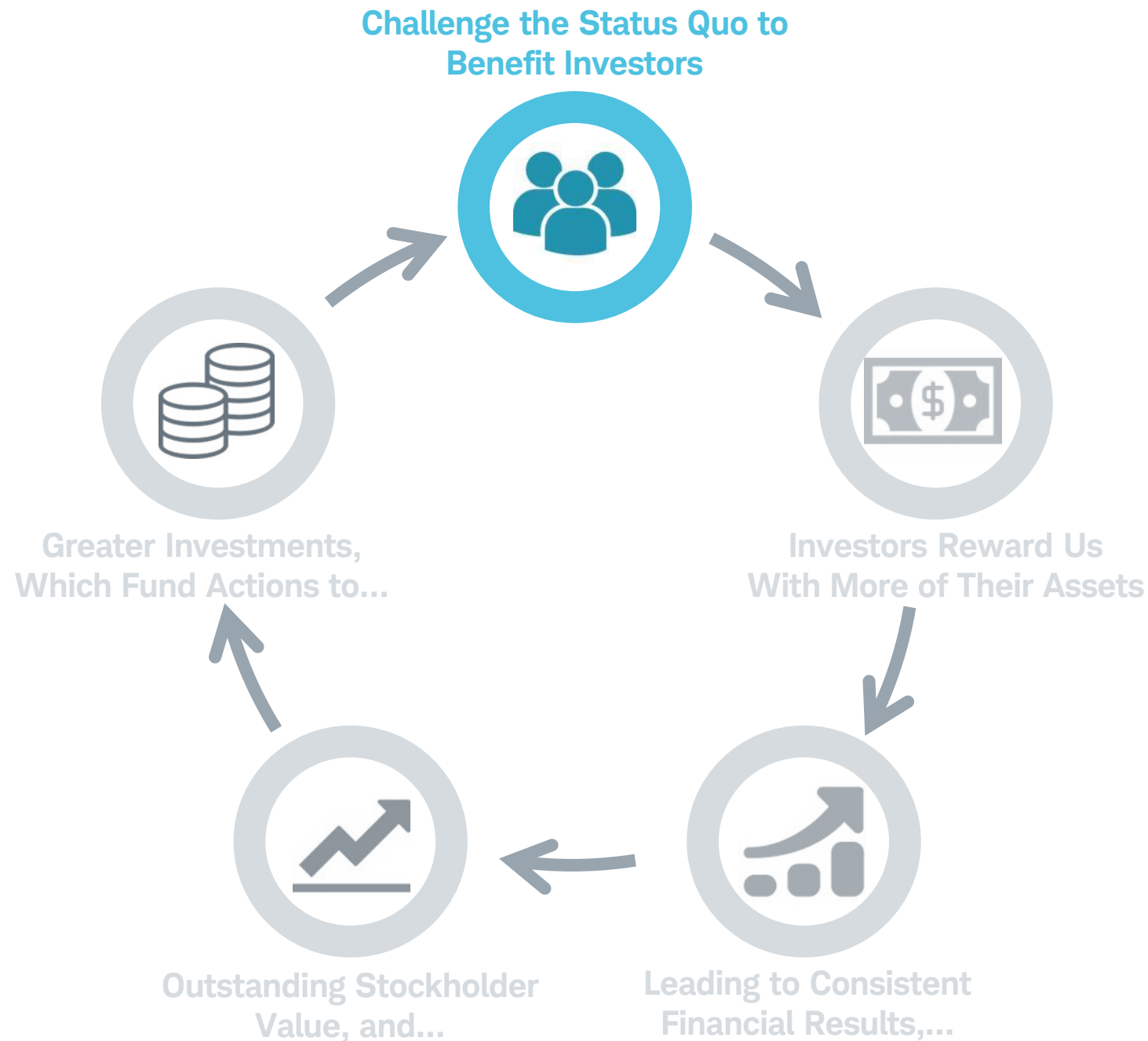
Schwab received a 4 out of 5 star ranking and placed third overall

Our strong financial and competitive positioning enables us to disrupt on behalf of our clients

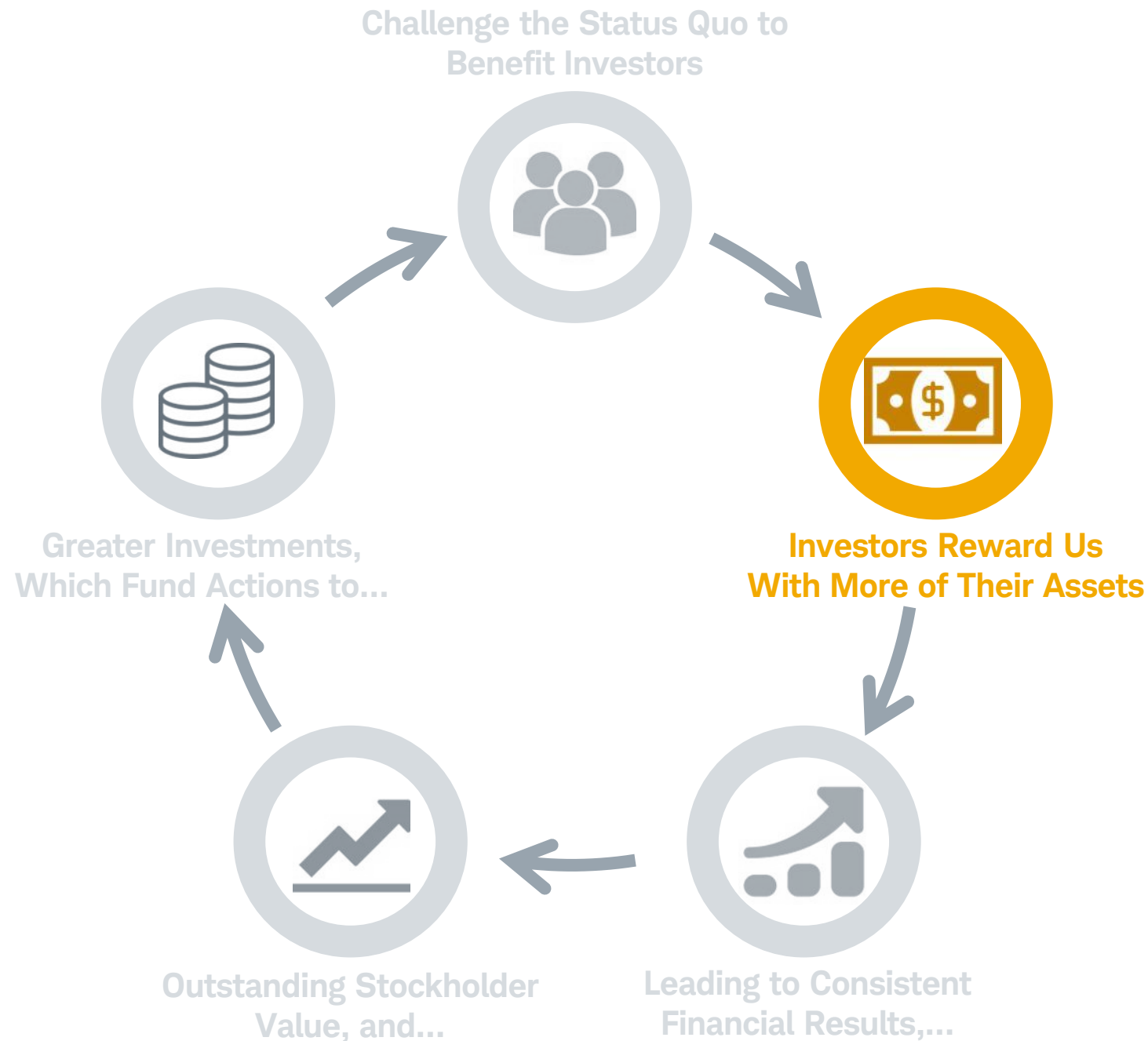
These actions renew our Virtuous Cycle, helping to drive sustained growth into the future.



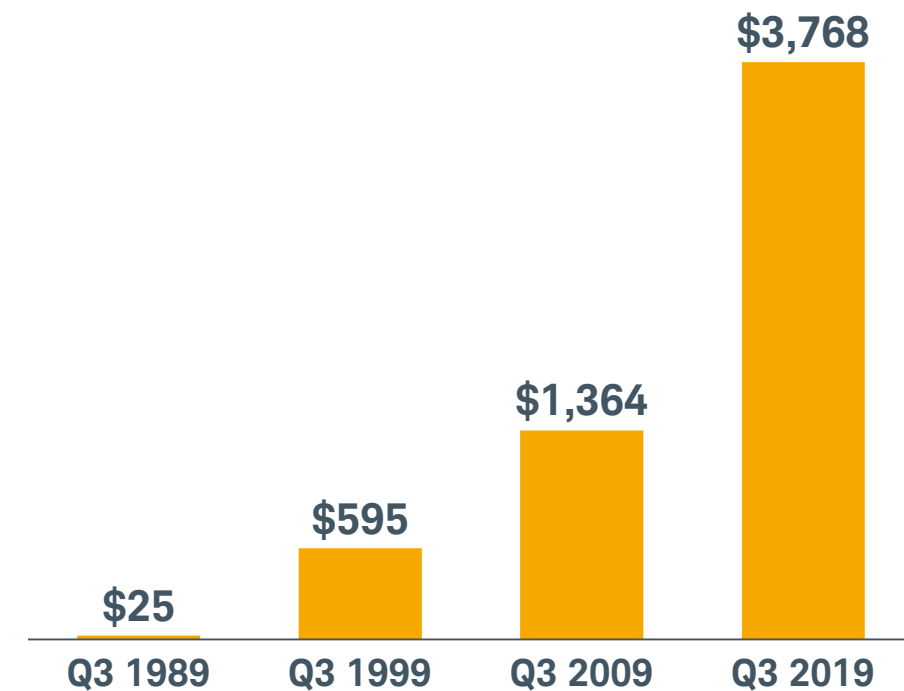
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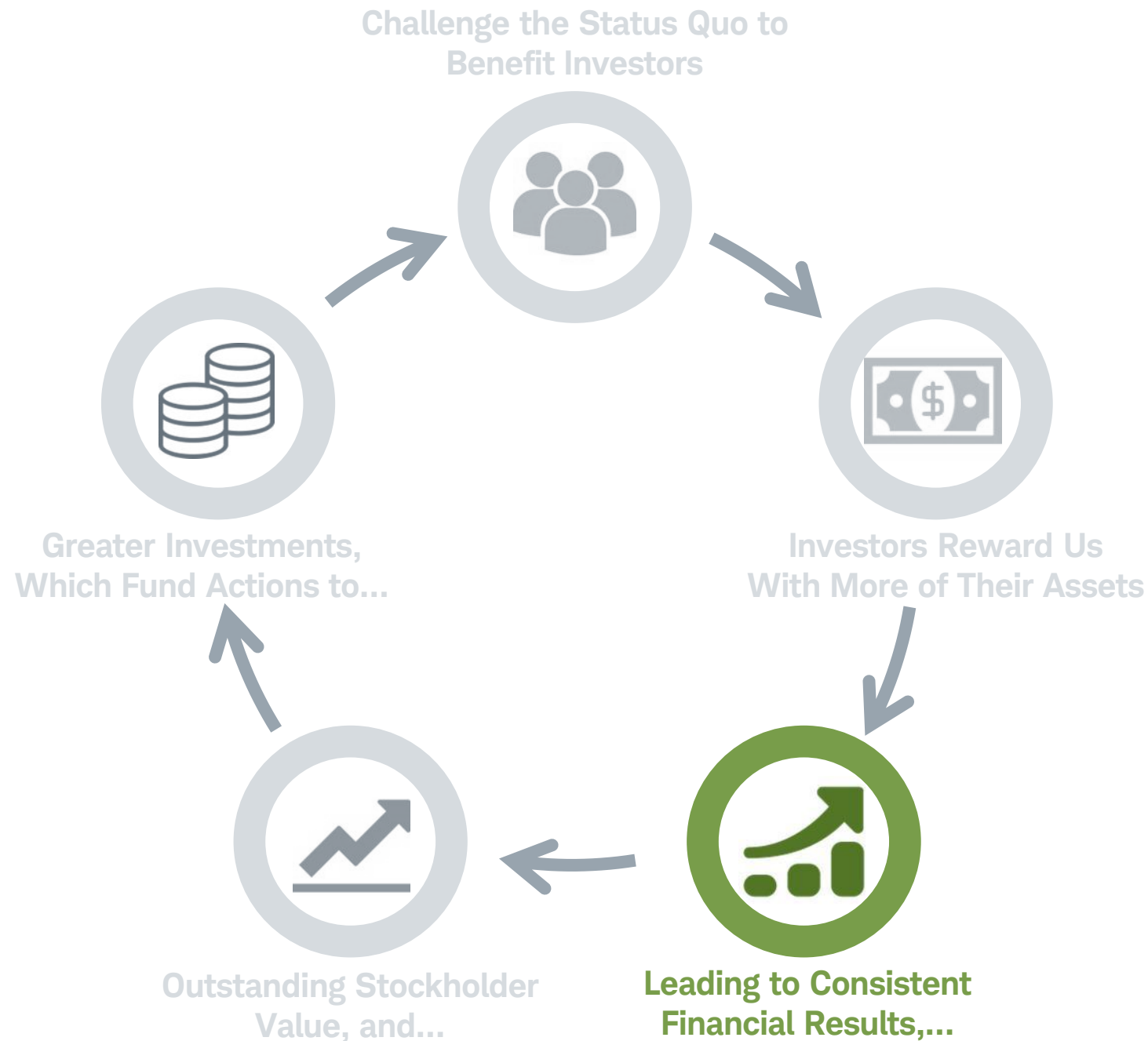
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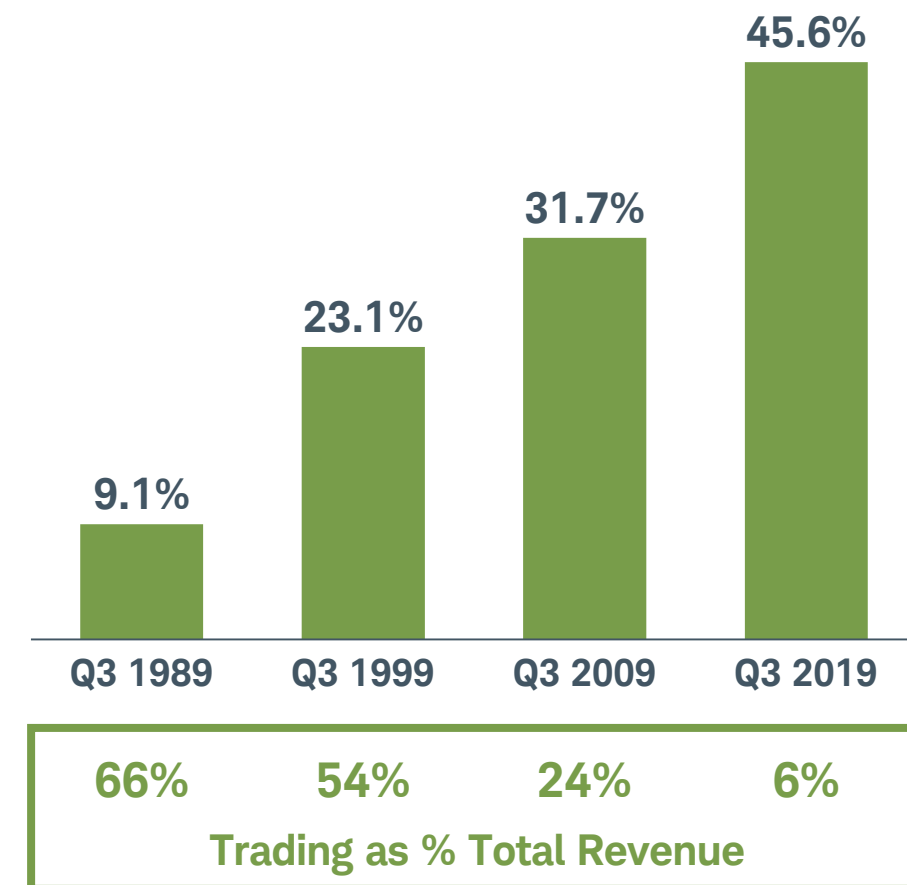
Total Client Assets, 1989–2019 (\$B)



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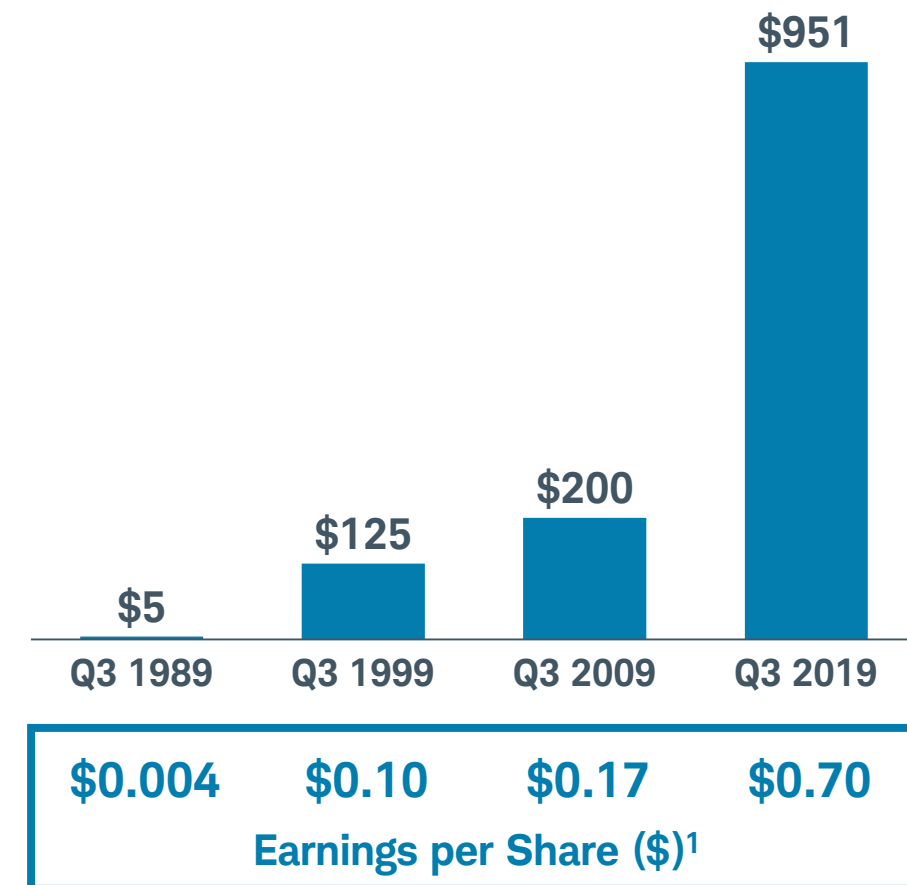
Pre-tax Profit Margin, 1989–2019 (%)



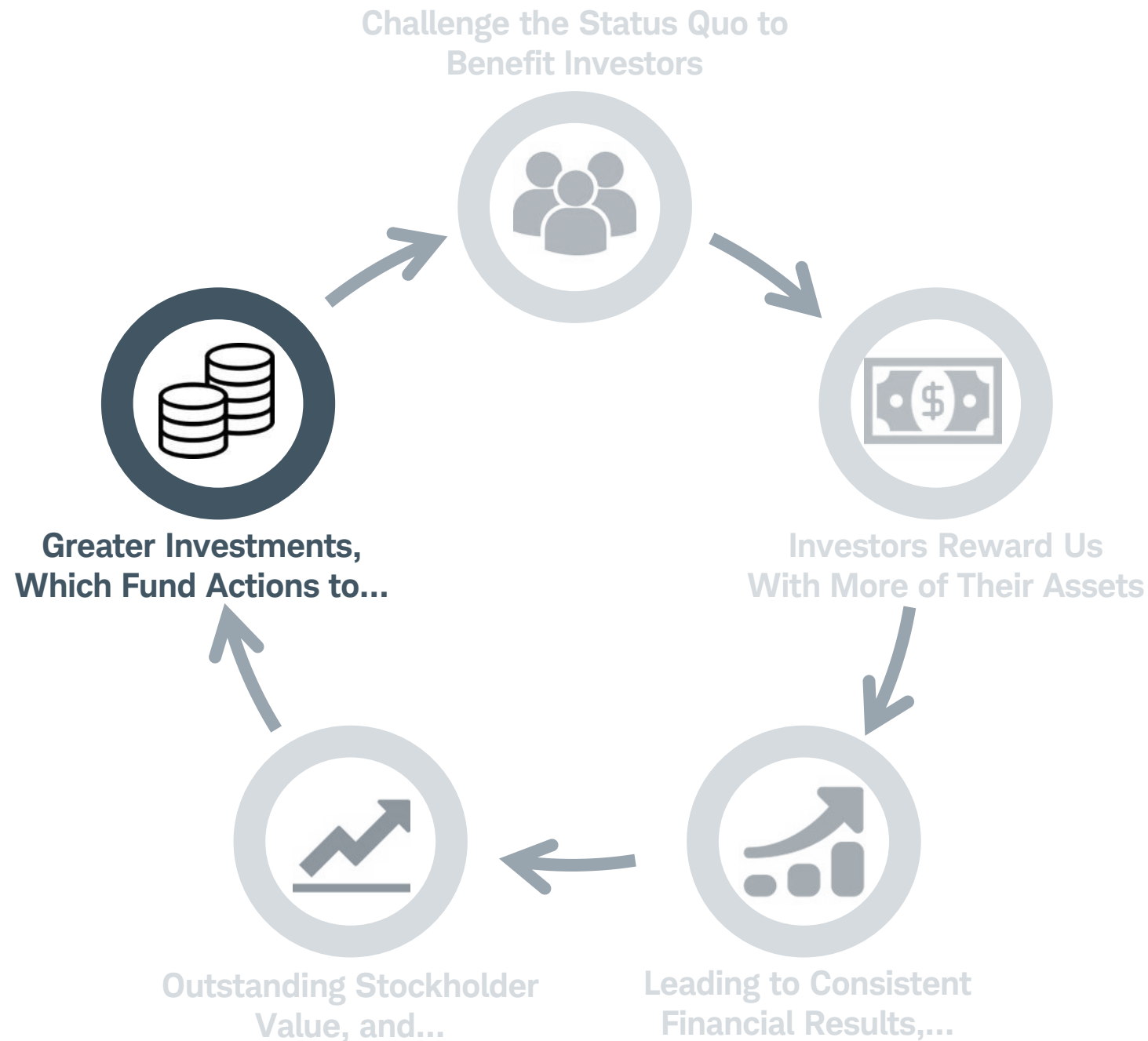
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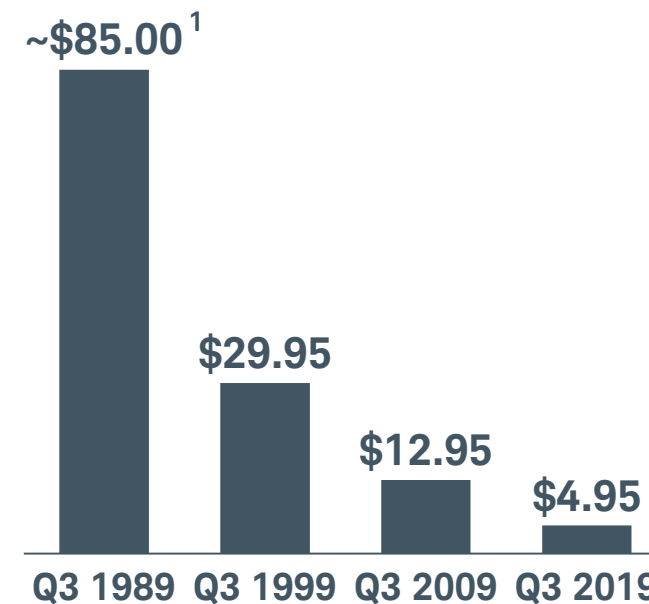
Net Income, 1989–2019 (\$M)



These actions renew our Virtuous Cycle, helping to drive sustained growth into the future.



Headline Commission Rate, 1989–2019 (\$)



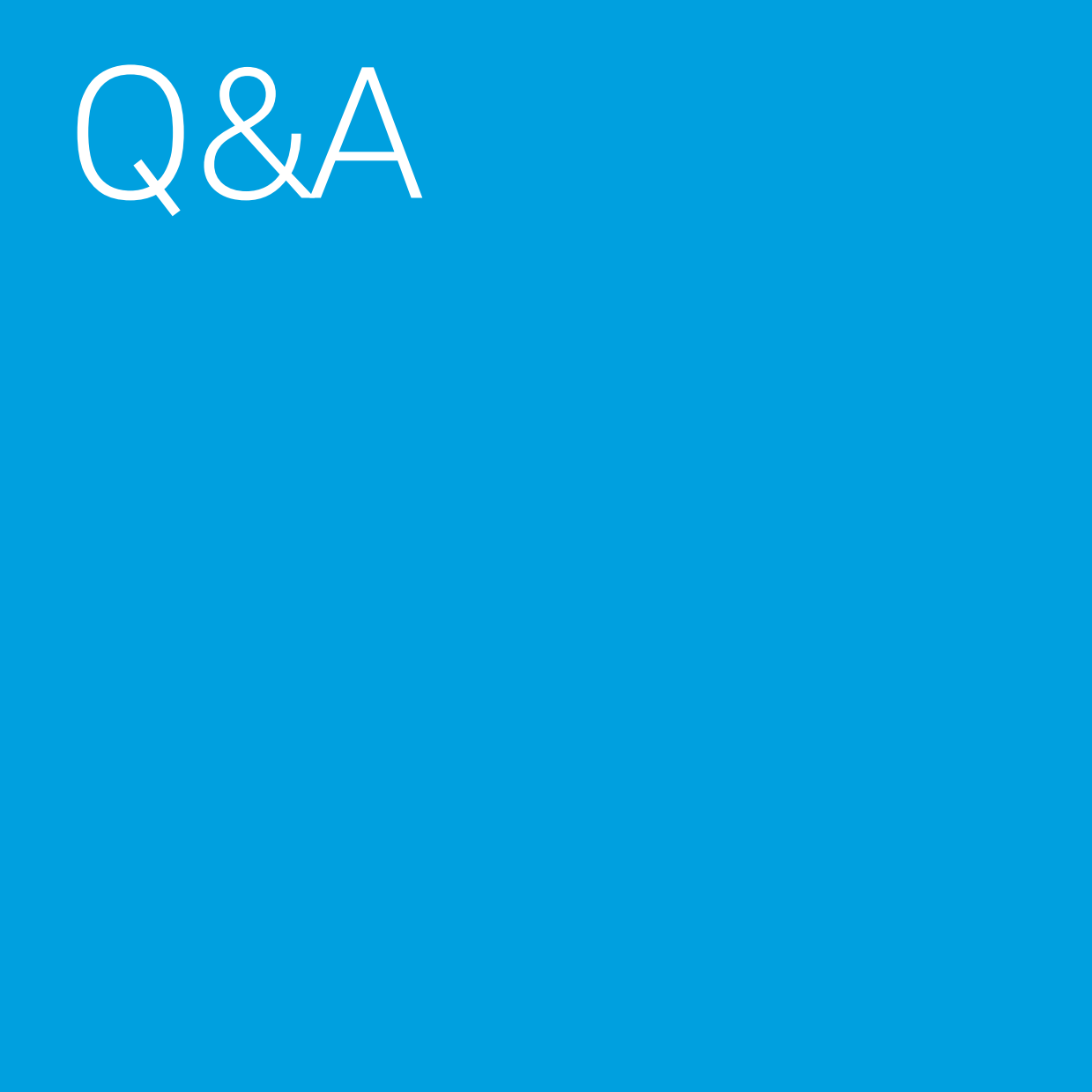
\$0

Online Trading Commissions²

31 Notes: 1. Headline commission rate based on illustrative trade of 500-800 shares. 2. Commissions for all U.S. and Canadian-listed stocks, ETFs, and options online and mobile trades reduced from \$4.95 to \$0.00; options trades are still subject to the standard \$0.65 per-contract fee.



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