Fall Business Update

October 19, 2018

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Introduction

Jennifer Como

Vice President
Investor Relations

Agenda

Walt Bettinger, President and Chief Executive Officer

Peter Crawford, EVP and Chief Financial 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,” “deliver,” “scenario,” “remain,” “drive,” “lead,” “record,” “investment,” “expand,” “build,” “sustain,” “opportunity,” “upside,” “enhance,” “improve,” “potential,” “plan,” “anticipate,” and other similar expressions. These forward-looking statements relate to: growth in client accounts and assets; disruptive actions; growth in revenues, earnings, and profits; stockholder value; investments to fuel and support growth, serve clients, and drive scale and efficiency; client value and pricing; market share; priorities for excess capital; target dividend payout ratio; assumptions and financial expectations for the FY18 three-rate-hike scenario; transfers to bank sweep; transition toward more cash-based revenue; revenue volatility; sweep deposit rates and beta; net interest margin; 4Q and 2019 spending; gap between revenue and expense growth; balance sheet growth; and Tier 1 Leverage Ratio operating objective.

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 registered investment advisors and grow those relationships and client assets; competitive pressures on pricing, including deposit rates; the company’s ability to develop and launch new 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; 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 margin; the company’s ability to manage expenses; regulatory guidance; client sensitivity to rates; the timing and amount of transfers to bank sweep; 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 19, 2018** (or such earlier date as may be specified herein). The company makes no commitment to update any of this information.

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Walt Bettinger

President and
Chief Executive Officer

Schwab's Virtuous Cycle is working as intended in 2018.

$280M+* in Cost Savings for Clients

Challenge the Status Quo to Benefit Investors

$172.5B Core NNA

$3.6T Client Assets

Investors Reward Us With More of Their Assets

$7.5B Revenue

44.9% Pre-tax Profit Margin

Leading to Record Financial Results,...

19% ROE

48% EPS Growth

Outstanding Stockholder Value, and...

12% Expense Growth

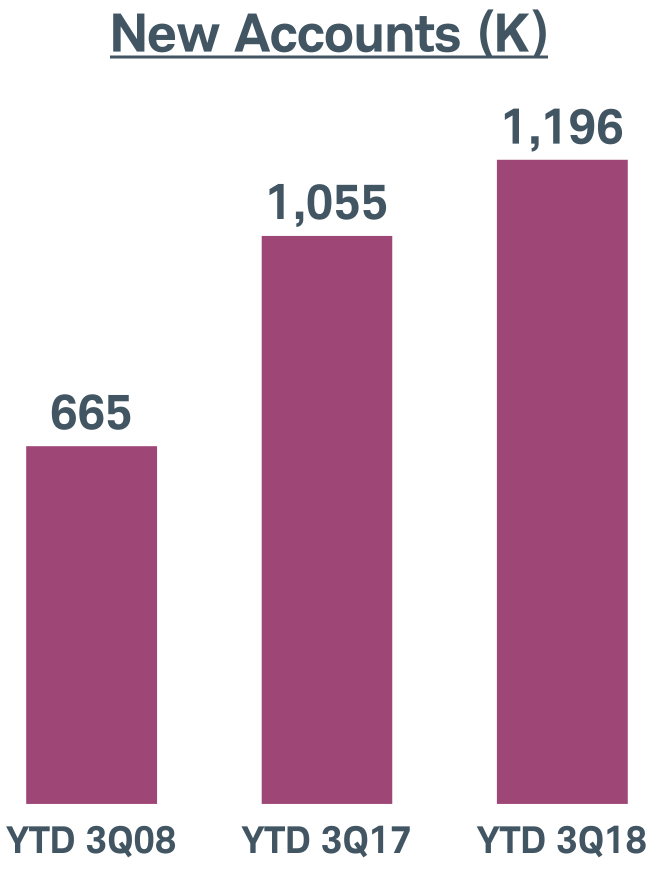
16% Increase in Project Spending

Greater Investments, Which Fund Actions to...

Note: Metrics are YTD 3Q18; growth metrics are YTD 3Q18 vs. YTD 3Q17. *Estimated YTD cost savings for clients from strategic pricing moves announced in February 2017 and October 2017.

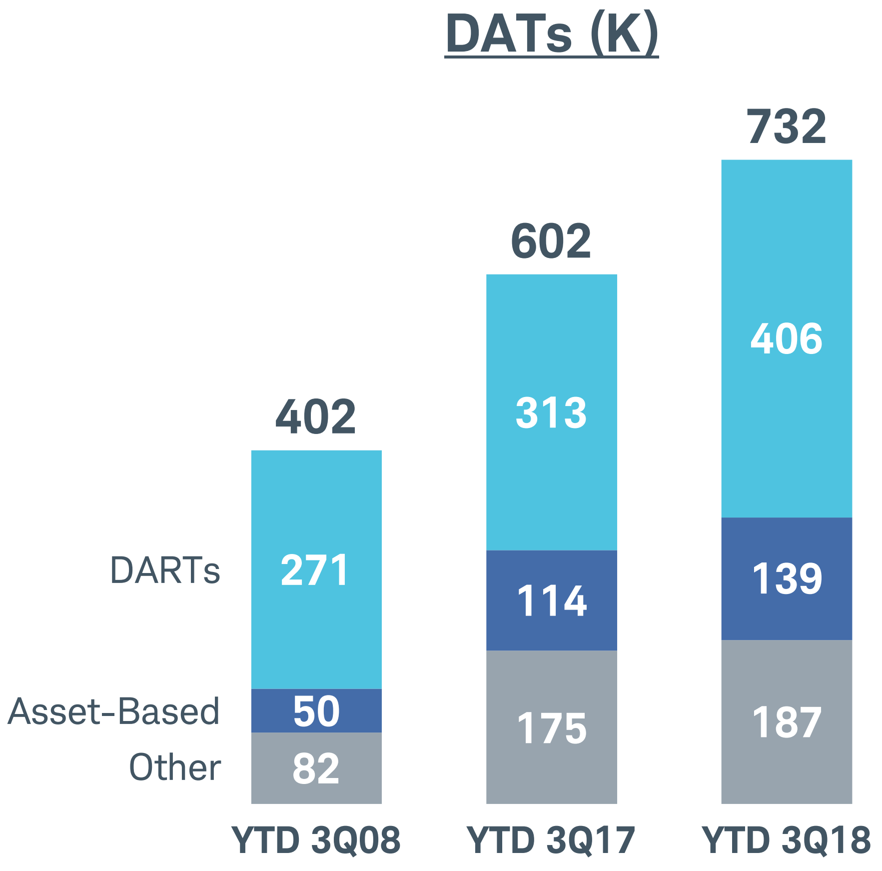
Continuing to challenge the status quo has helped yield record client activity…

New accounts have grown 13% since 2017 and 80% since 2008…



+80%
vs. 2008

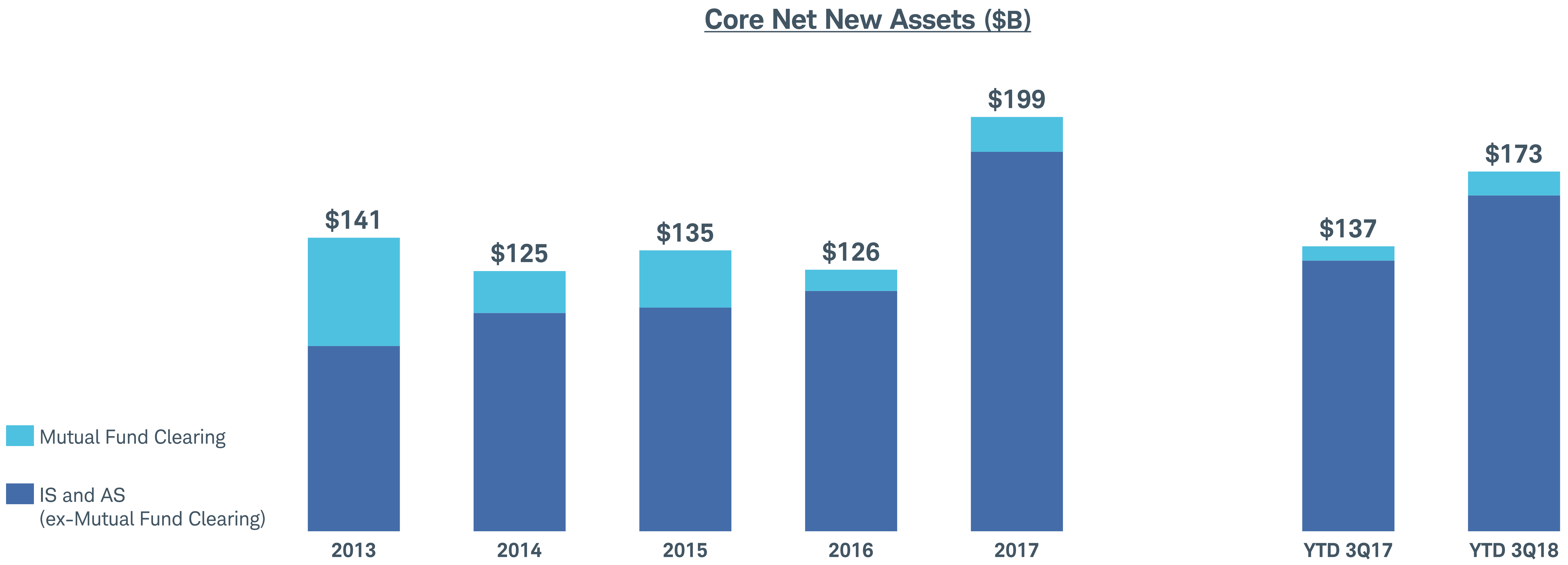
…while DATs have increased 22% since 2017 and 82% since 2008



+82%
vs. 2008

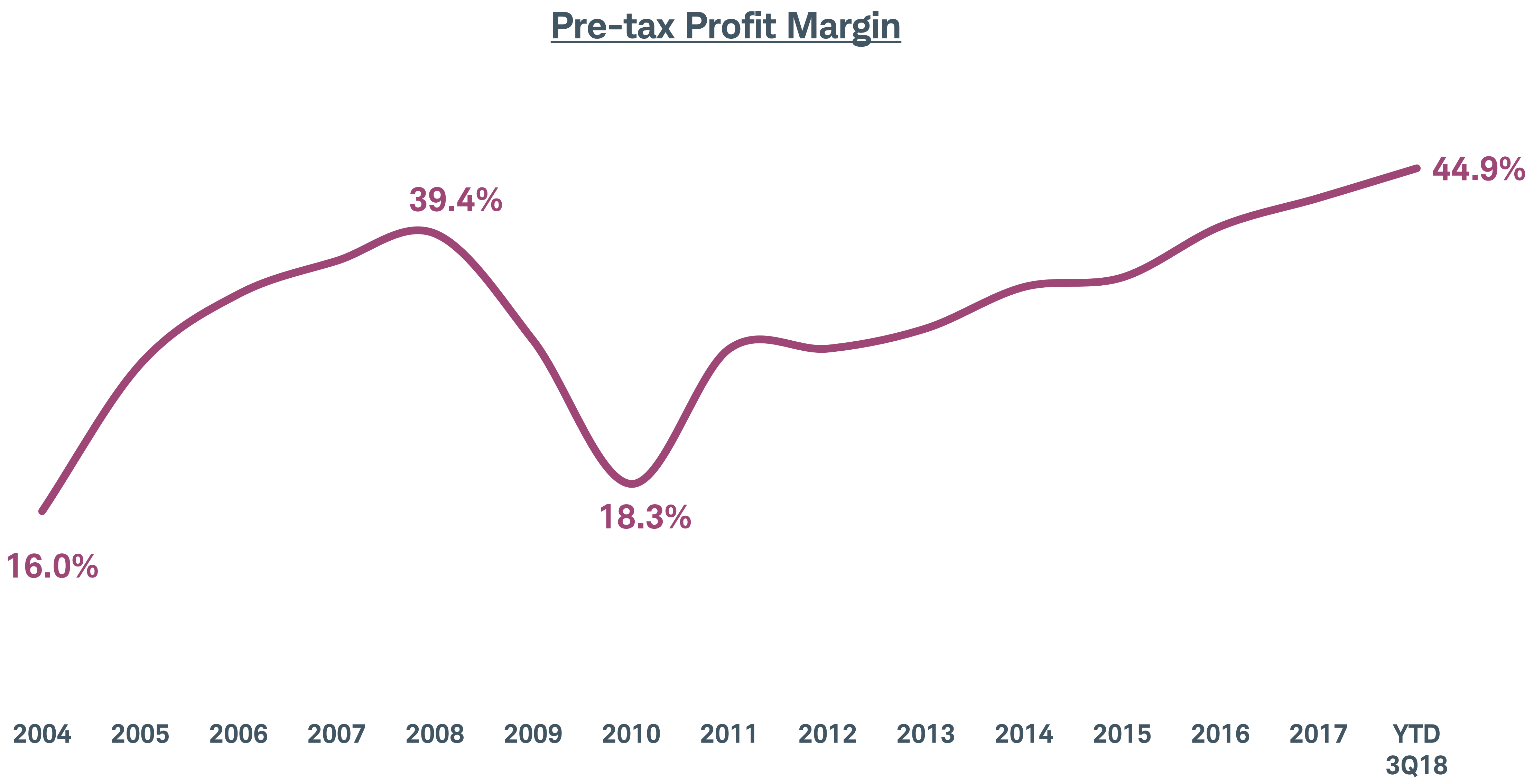
Note: Some numbers may not total due to rounding. DATs = daily average trades. DARTs = daily average revenue trades and include all client trades that generate either commission revenue or revenue from principal markups (i.e., fixed income). Asset-based trades = all eligible trades executed by clients who participate in one or more of the Company's asset-based pricing relationships. Other trades = all commission free trades, including Schwab Mutual Fund OneSource® funds and ETFs, and other proprietary products.

...and YTD record Core NNA – now surpassing all full-year totals pre-2017.

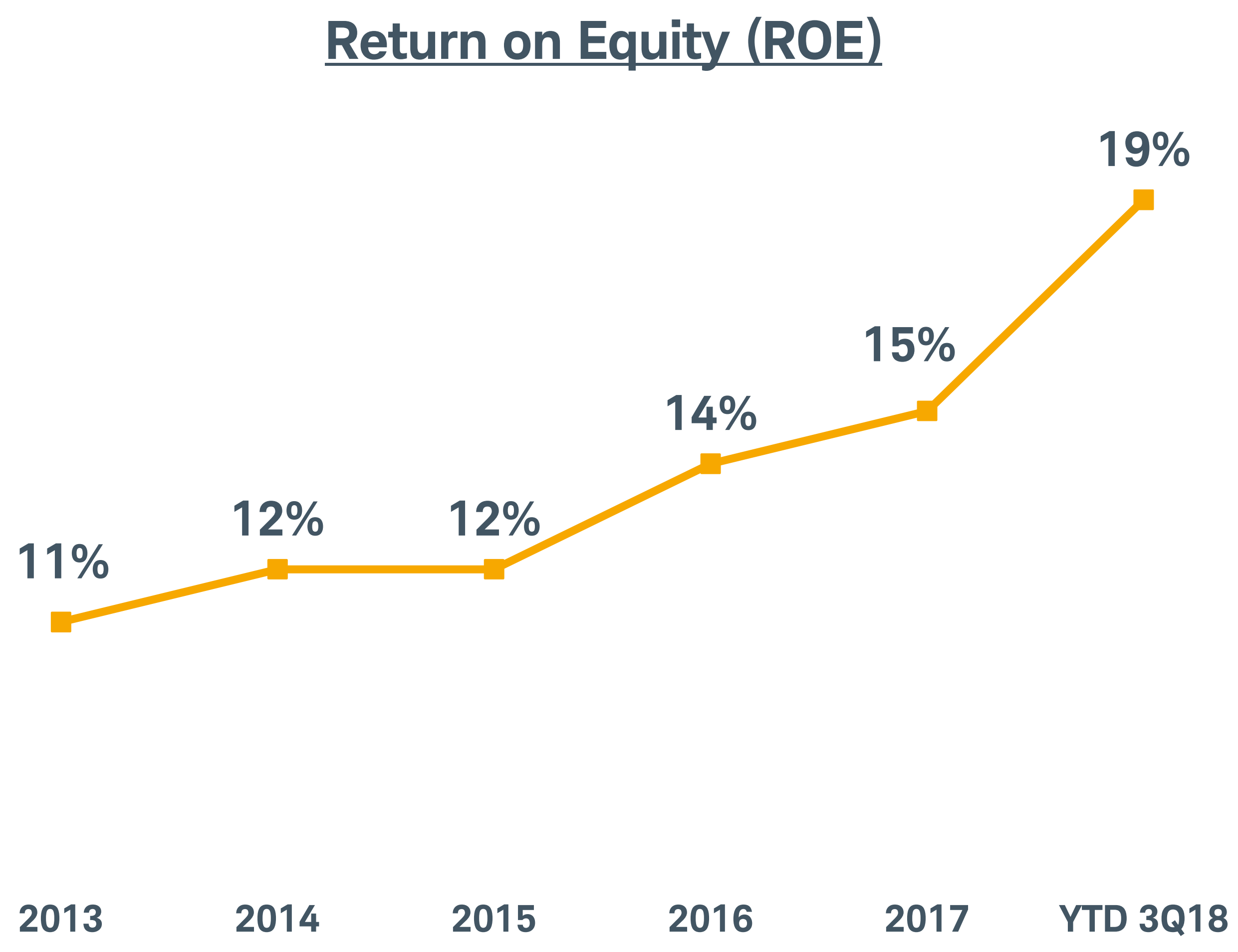


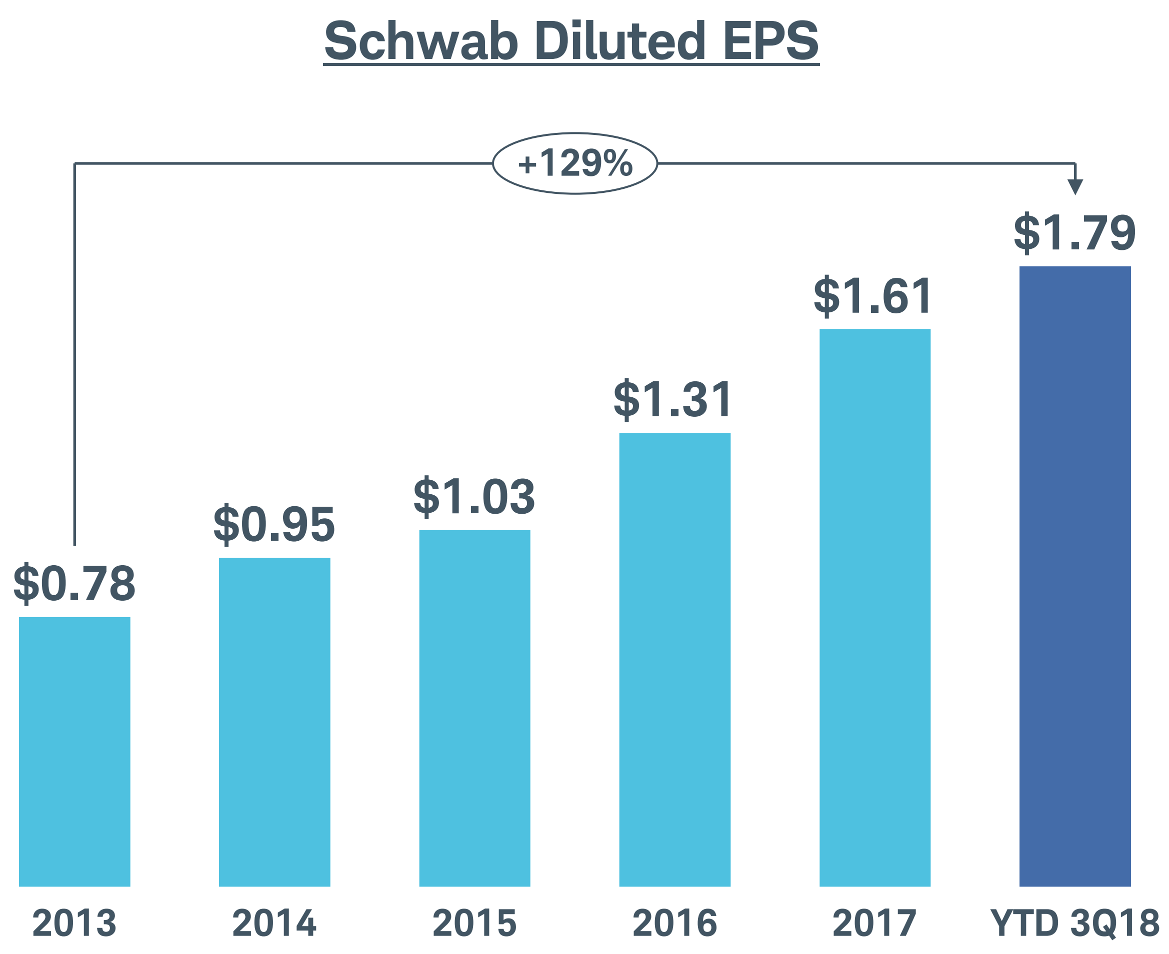
Note: Core net new assets = net new assets before significant one-time flows, such as acquisitions/divestitures or extraordinary flows (generally greater than $10 billion) relating to a specific client. These flows may span multiple reporting periods.

These metrics helped to drive outstanding results, with an expanded pre-tax profit margin…



...increased ROE, and record earnings.





All of this enables us to continue to invest in the business to both support and fuel growth.

YTD 3Q18 vs. YTD 3Q17

Headcount

+10%

- Most of the increases are in client-facing, technology, and risk and regulatory roles

Project Spending

+16%

- Application Modernization, Business Process Transformation, and Digital Accelerator represent our largest investments

Marketing

+7%

- Optimization model allows for focused spend; digital marketing continues to grow

Schwab's Virtuous Cycle is working as intended in 2018 and we believe **we are well positioned to continue driving for future success**

Our combination of key competitive advantages has allowed us to win in the marketplace.

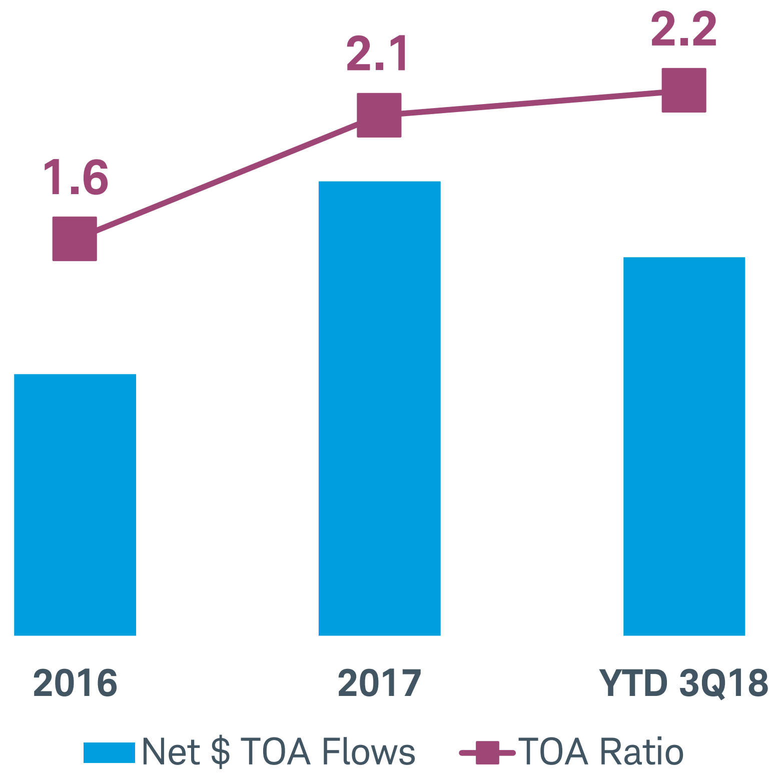
Our competitive advantages make it difficult for others to replicate our client offerings because we have the flexibility to enhance value and lower pricing for clients...

Key Competitive Advantages

- Size and Scale
- Operating Efficiency
- Service Culture
- Operating Structure
- Brand and Corp. Reputation
- Willingness to Disrupt

...and our efforts have paid off

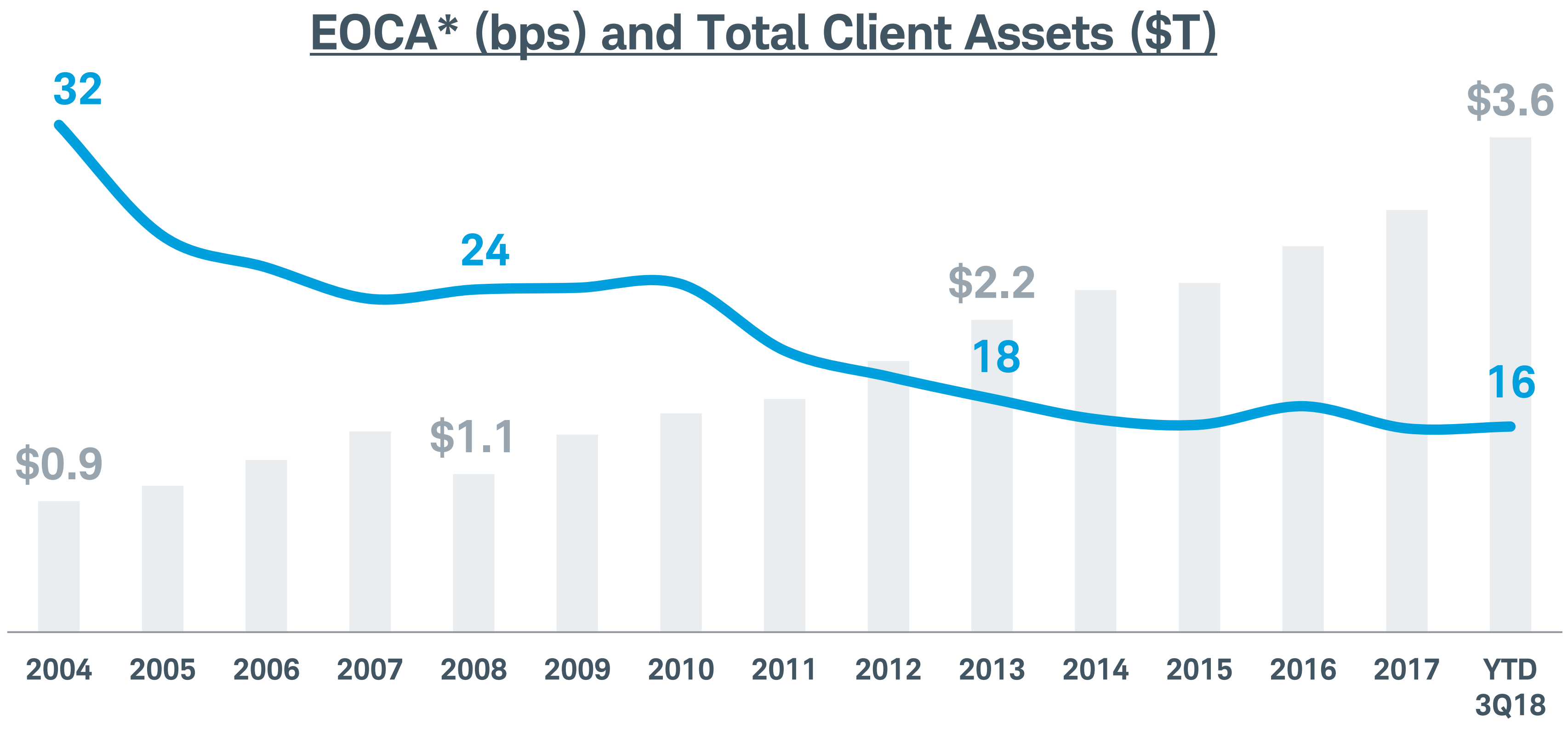
TOA Ratio and Net $ TOA Flows



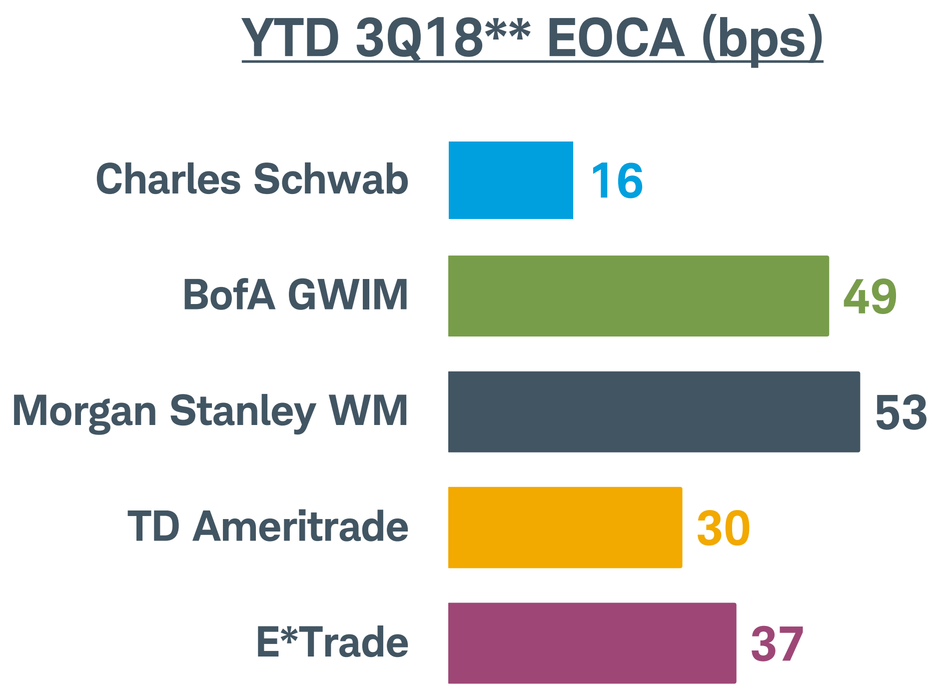
Note: TOA = Transfer of Accounts. TOA Ratio is total assets transferred in divided by total assets transferred out. Net TOA Flows represent total net TOA inflows from all competitors.

We have driven growth, scale, and efficiency in our model…

Since 2008, we have tripled our asset base and reduced EOCA by a third…



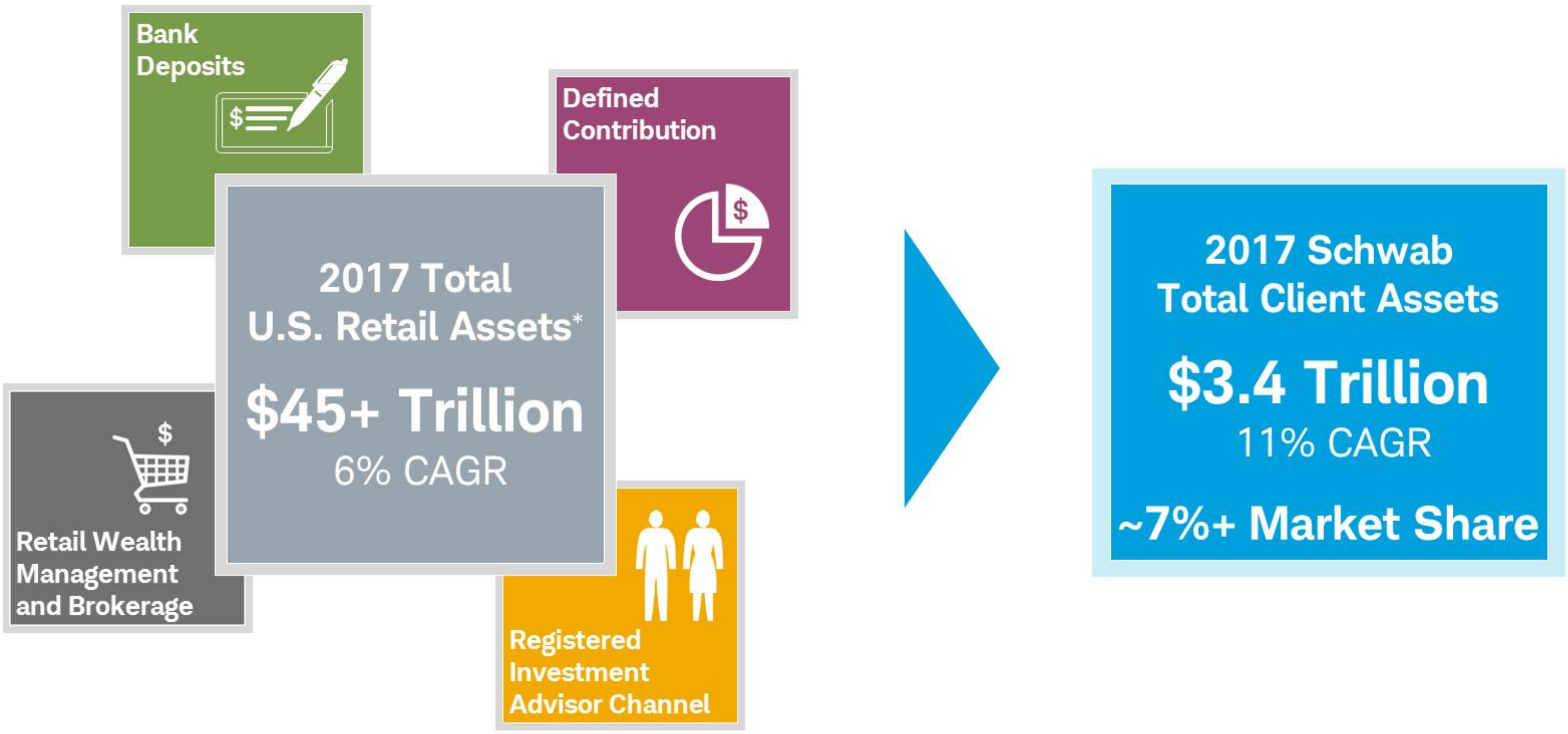
…all while maintaining our cost leadership in the industry



Note: *EOCA = Expense on average client assets. **From publicly available company reports. TD Ameritrade represents results through 6/30/2018 as 9/30/2018 results are not available.

...and believe there is more to come.

As we have under 10% market share, there is still ample opportunity to grow...

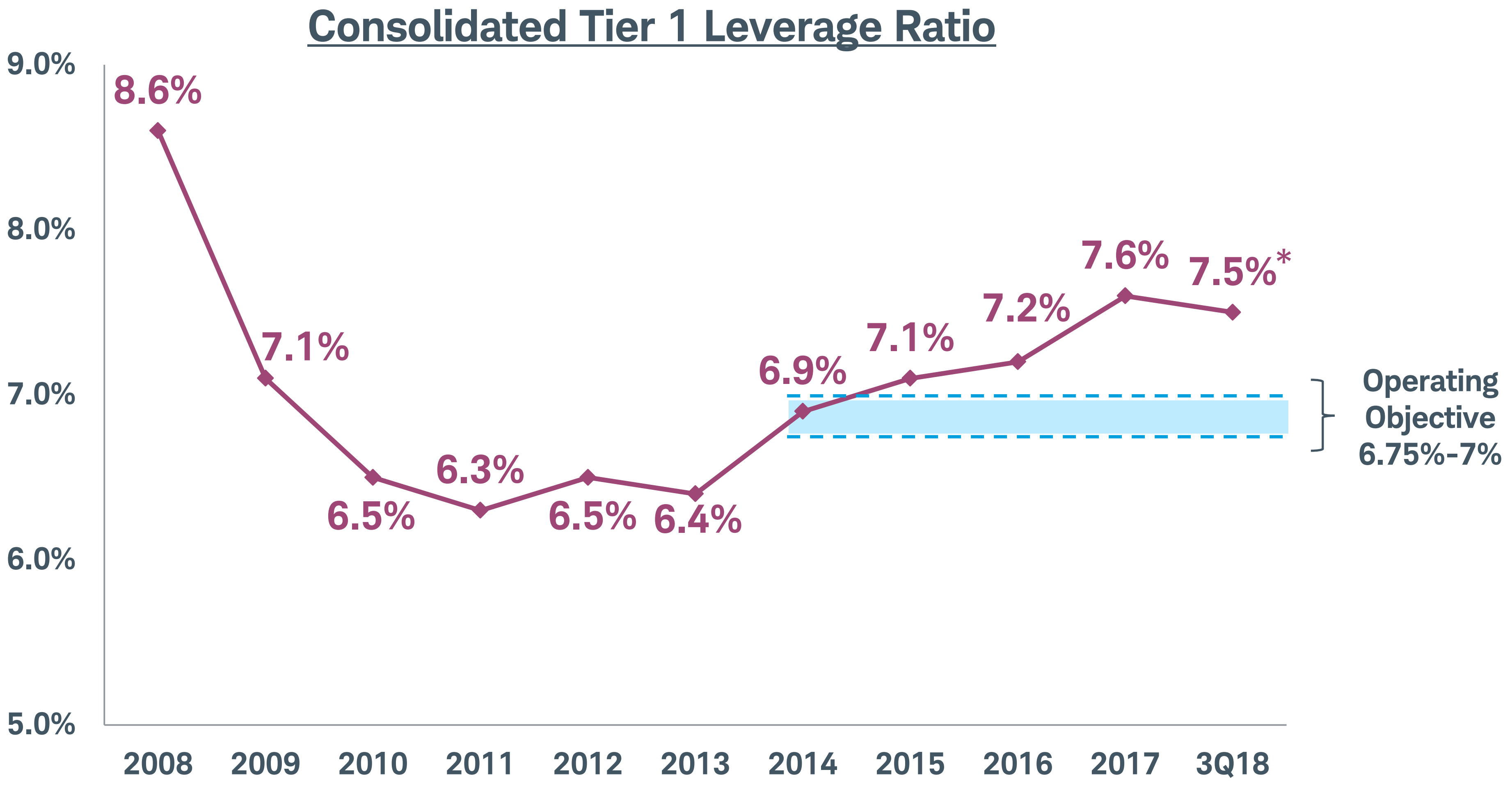


...all while continuing to build scale

- "The Schwab path" to improve **value for clients**, **profitability** for owners, and our **competitive positioning** is made possible by a **relentless focus on efficiency**
- We believe that the **investments we are making** in Application Modernization, Business Process Transformation, and Digital Accelerator should help continue **to drive down EOCA going forward**

Note: *Total U.S. Retail Assets based on Schwab estimates from Federal Reserve Flow of Funds. CAGR is the compounded annual growth rate from 2013.

After ten years, the potential for meaningful excess capital is in view…



Considerations for Excess Capital Priorities

Maintaining/Increasing our Dividend (in line with our 20%-30% target payout ratio)

Special/Discretionary Dividends

Buybacks

Disciplined M&A (consistent with our strategy)

We will continue to prioritize sustained investments to drive long-term growth for the next decade and beyond

Note: *Preliminary.

...evolving our story as a company to include organic growth <u>and</u> capital return.

- Our Virtuous Cycle is working as intended, driven by our **“Through Clients’ Eyes”** strategy
- We believe our **competitive positioning has never been stronger** – the opportunity to grow, coupled with our relentless **focus on efficiency**, should help propel us into the future
- We are now on course to potentially resume additional **capital returns to owners**, a noteworthy complement to our growth trajectory

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Peter Crawford

Executive Vice President and Chief Financial Officer

Our third quarter results demonstrate the power of our financial model.

- Our strengthened business momentum and a generally favorable economic environment helped drive record results
- We continued to manage capital thoughtfully through balance sheet growth and we are now evaluating methods of capital return
- Even with increased 4Q spending, we still see potential upside to our three-rate-hike scenario and we are currently developing our 2019 plan

Today we'll discuss:

- Q3 2018 results
- Capital picture
- 2018 financial outlook
- Initial thoughts on 2019

Our key macro drivers have performed better than our assumptions…

	Market	Short-term Rates	Long-term Rates	Trading
FY18 Key Drivers 3-Rate-Hike Scenario:	S&P appreciates 6.5%	Three 25bps Fed Funds rate hikes in March, June, and September 2018 to 2.00%-2.25%	Average 10-year Treasury at 2.75%	DARTs up slightly year-over-year
YTD 3Q18 Actuals:	S&P up 9% YTD	Three 25bps Fed Funds rate hikes in March, June, and September 2018 to 2.00%-2.25%	Average 10-year Treasury at 2.87%	DARTs up 30% from YTD 3Q17

...and our "no trade-offs" approach continues to resonate with clients...

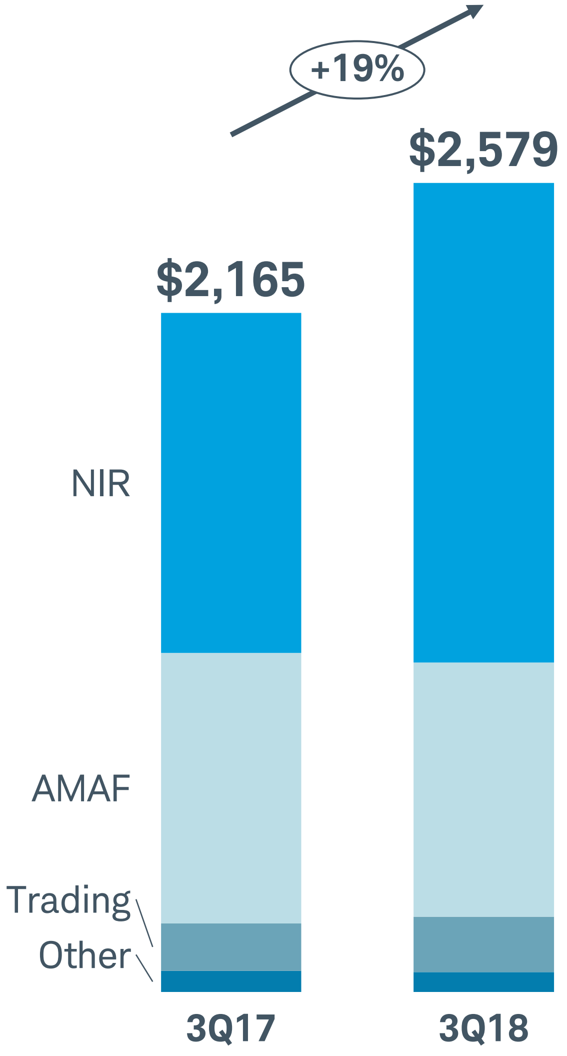
YTD 3Q18 vs. YTD 3Q17

New-to-Retail Households	Total Advised Assets (EOP)	Interest-Earning Assets (EOP)
⬆ 24%	⬆ 15%	⬆ 18%
53% under 40yrs	$1.9 trillion	$264 billion

Note: EOP = End of period.

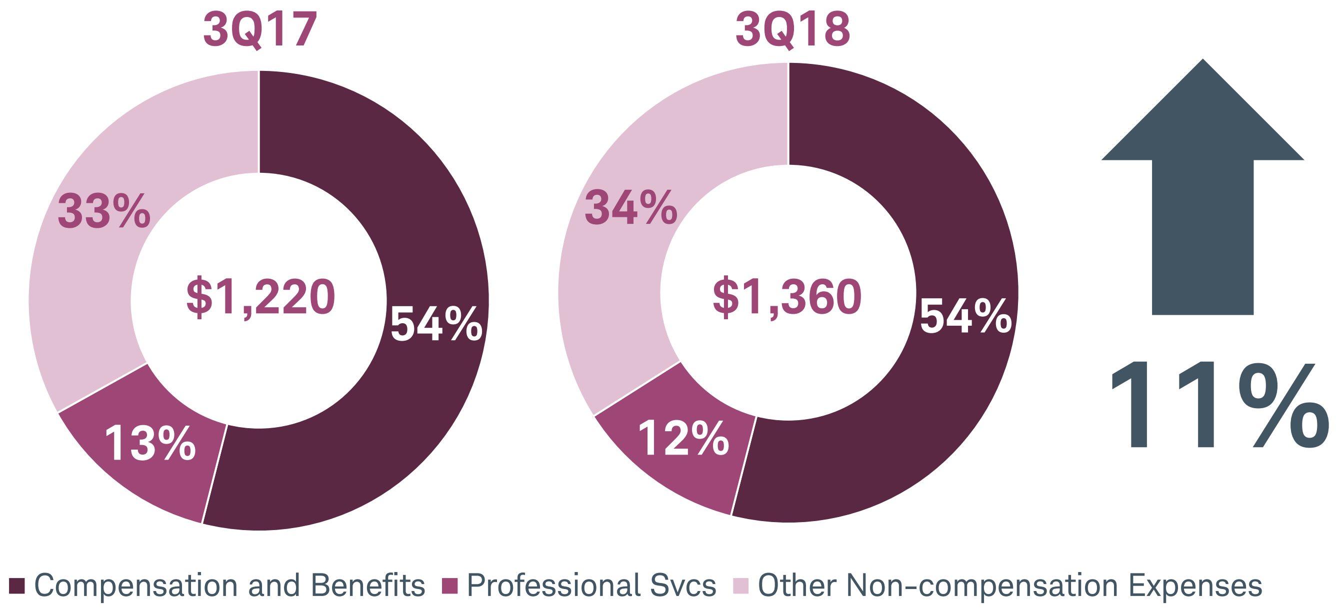
…helping to generate a 19% increase in revenues alongside healthy investments in the business.

Total Net Revenues ($M)



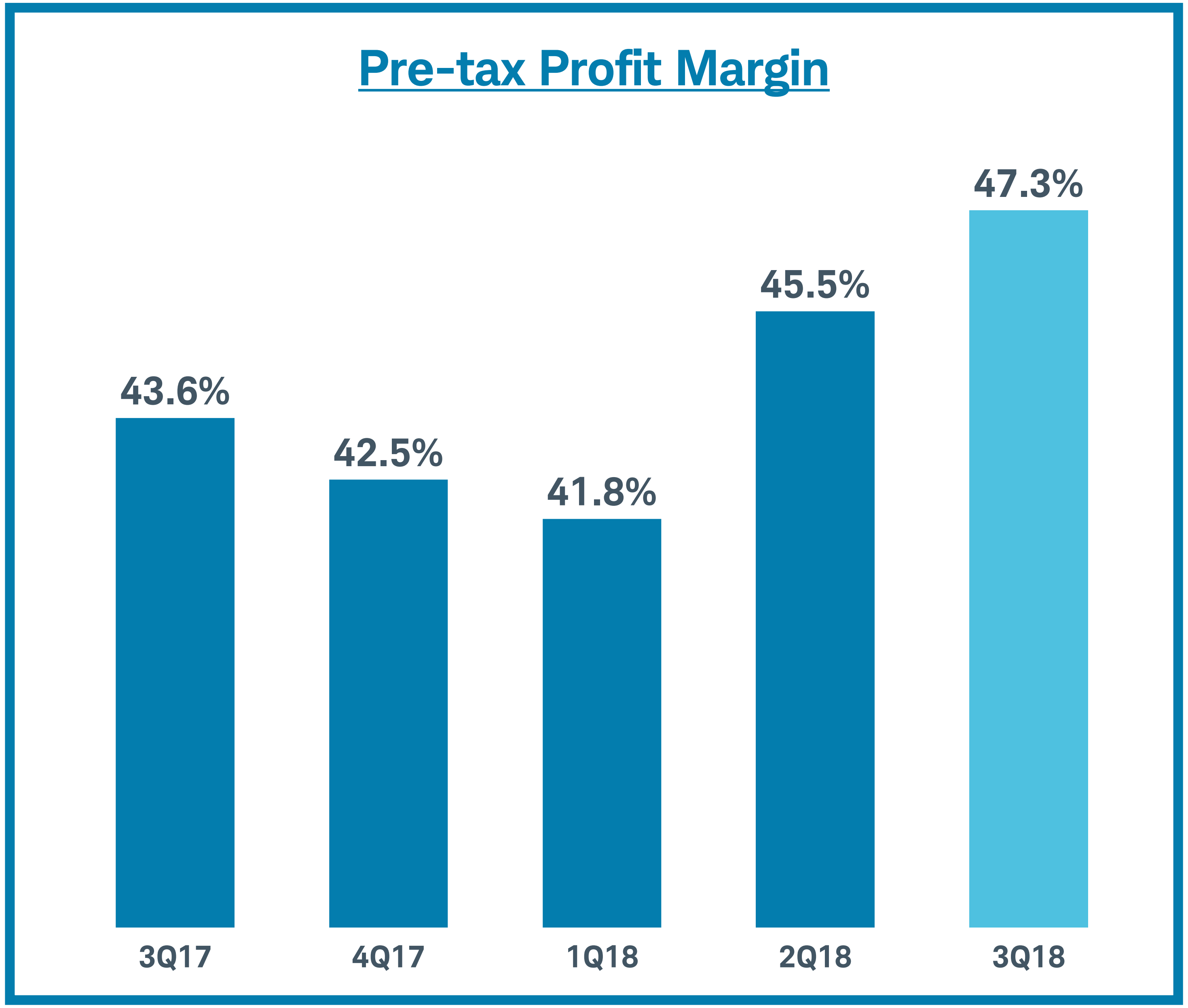
- **13th consecutive quarter of record** revenues
- **Net interest revenue rose 41% to a record $1.5 billion,** driven by higher interest rates and larger client cash sweep balances
- **Asset management and administration fees decreased 6%** due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions
- Higher client activity lifted **trading revenue by 17%**

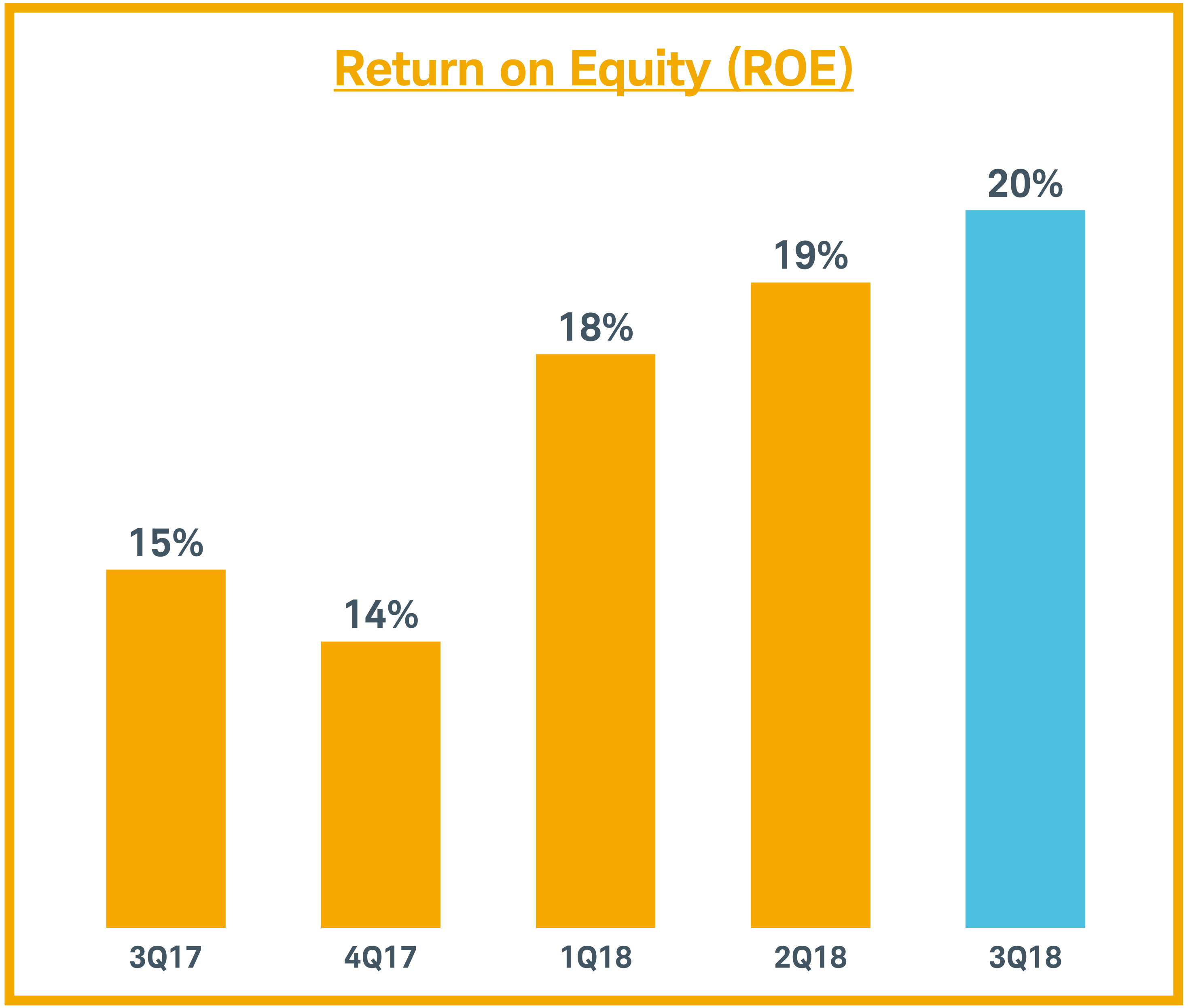
Total Expenses ($M)



- Compensation and benefits grew 11% as a result of **hiring to support our expanding client base**
- Non-compensation expenses reflected **ongoing investments for fueling growth and driving efficiency**

We achieved a record quarterly pre-tax profit margin and a ROE not seen since 2009.





Our balance sheet has now grown well past the $250 billion consolidated asset threshold.

($M, EOP)	3Q17	2Q18	3Q18*
Total Assets	$230,714	$261,882	$272,102
Bank Deposits	$165,263	$199,922	$213,408
Payables to Brokerage Clients	$31,480	$30,347	$27,851
Short-term Borrowings	$5,000	-	-
Long-term Debt	$3,268	$5,789	$5,790
Stockholders' Equity	$18,027	$20,097	$20,834
Parent Liquidity	$2,737	$4,693	$4,079
Tier 1 Leverage Ratio	7.7%	7.6%	7.5%

Consolidated balance sheet **growth is 12% YTD**

We completed **$23 billion in sweep transfers** from sweep money market funds in 3Q18, for a total of $68 billion YTD

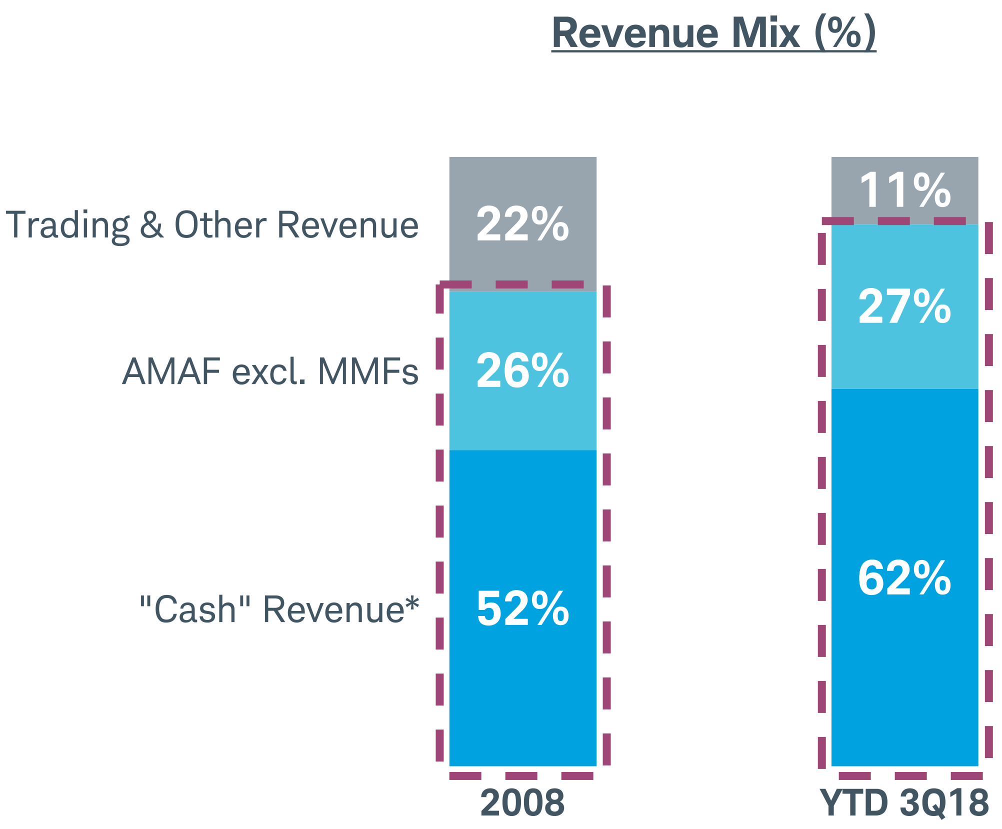
As of 9/30/18, we have **$33 billion** remaining in sweep money market funds

We expect to continue transfers in October and reach completion in the **first half of 2019**

As we used capital to support transfers, our Tier 1 Leverage Ratio **decreased slightly**

Note: 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 AOCI and other regulatory adjustments), divided by Average Total Consolidated Assets. FHLB = Federal Home Loan Bank.
* Preliminary.

Cash has always been an important source of revenue and supports the overall value we bring to clients.



Balance Revenue	78%	89%

Continued transition toward higher % of "cash-based" revenue benefits all key stakeholders

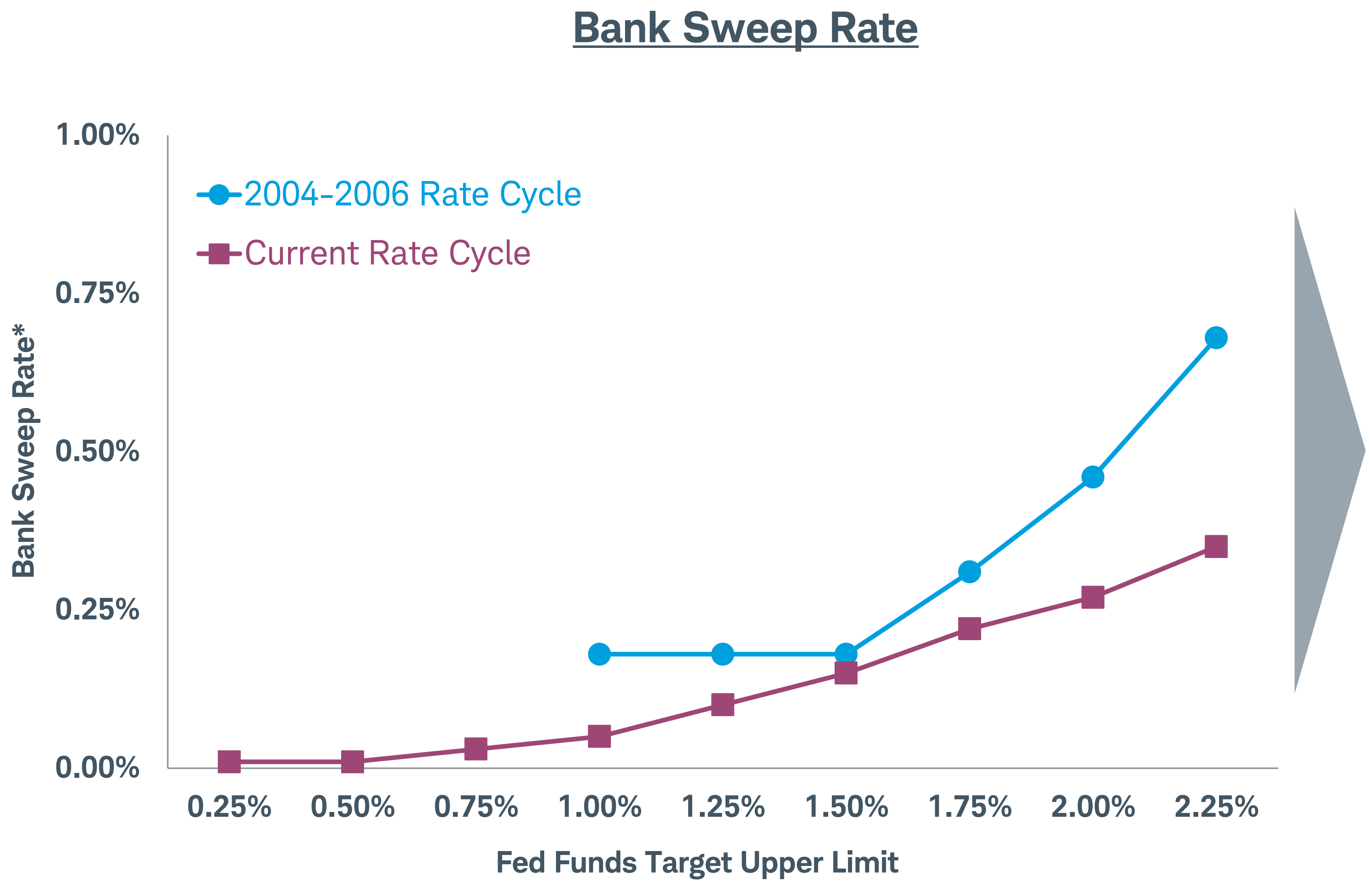
Enhanced ROCA facilitates **sharing upside with clients** via an ever improving value proposition

Reduces relative revenue volatility and creates an "internal hedge" that positions the firm to perform across a range of environments

Enables combination of growth and margin expansion, along with consistent and conservative asset liability management strategies, allowing the firm to **deliver an attractive total return to stockholders**

Note: *"Cash" Revenue represents net interest revenue and revenue from proprietary money market funds.

Our sweep deposit rates continue to track below those in the prior rate cycle.



- In the 2004-2006 rate cycle (from 1.00% - 5.25% Fed Funds), our **overall beta was about 40%**
- So far this cycle:

Fed Funds Target Upper Limit Range	Beta
0.25% - 2.25%	<20%
1.00% - 2.25%	<25%

- We see **no indications** to date that **overall beta will be higher** than the prior rate cycle, although we do plan to **share more with our clients as rates rise**
- If we consider MMFs in the calculation, our beta looks closer to ~60%, demonstrating the **benefits of a segmented cash strategy**

Note: *Represents highest blended rate at each Fed Funds limit. MMFs = Money market funds. Beta for MMFs assumed to be 100%.

Key considerations for 2018 and 2019:

	2018	2019
Revenues and Expenses	▪ With a 4Q rate hike, **NIM expectations remain in the high 220s** and revenue growth in the **mid-to-upper teens** ▪ In addition to typical 4Q expense seasonality: – We are **increasing marketing spend** through year-end to capitalize on our **momentum** – We are recognizing our **employees' contribution** to Schwab's record performance through an **approximately $35 million equity grant** ▪ We expect this still results in a gap between full-year revenue and expense growth of **400-600bps**	▪ We are currently developing our 2019 plan and will continue to assess the revenue outlook **pending the Fed's December meeting and market expectations for future rate increases** ▪ Expense planning is still preliminary: – Future spending will ensure we **support the growth** of our business and invest in key initiatives intended to **drive productivity and scale** – **Increases may moderate from recent levels**

Capital

- We anticipate our 2018 balance sheet growth to be around 15%; once transfers of sweep money market funds to bank sweep are complete, we look to organic activity to once again be the primary growth driver
- As we near the end of our transfers, we will work with our Board to evaluate options for the return of capital so that we move closer to our 6.75%-7% Consolidated Tier 1 Leverage Ratio operating objective

Our third quarter results demonstrate the power of our financial model.

- Our strengthened business momentum and a generally favorable economic environment helped drive record results
- We continued to manage capital thoughtfully through balance sheet growth and we are now evaluating methods of capital return
- Even with increased 4Q spending, we still see potential upside to our three-rate-hike scenario and we are currently developing our 2019 plan

Our overall priorities are simple:

Continued business growth through our client-first strategy

Solid revenue growth through multiple sources

Expense discipline leading to enhanced performance

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Q&A

Rich Fowler

Senior Vice President
Investor Relations

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