

Summer Business Update

July 20, 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,” “maintain,” “progress,” “build,” “sustain,” “opportunity,” “upside,” “ongoing,” “trend,” and other similar expressions. These forward-looking statements relate to: growth in the client base, accounts, and assets; market share; “Through Clients’ Eyes” strategy; Advisor Services momentum; client demographics; client demand for the company’s wealth management capabilities, including advisory solutions; disruptive actions; growth in revenues, earnings, and profits; stockholder value; investments to fuel and support growth, serve clients and drive scale and efficiency; 2018 spending; assumptions and financial expectations for the three-rate-hike scenario and FY18 trend; transfers to bank sweep; and balance sheet growth. 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, implement, and launch new products, services, infrastructure, and capabilities 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 **July 20, 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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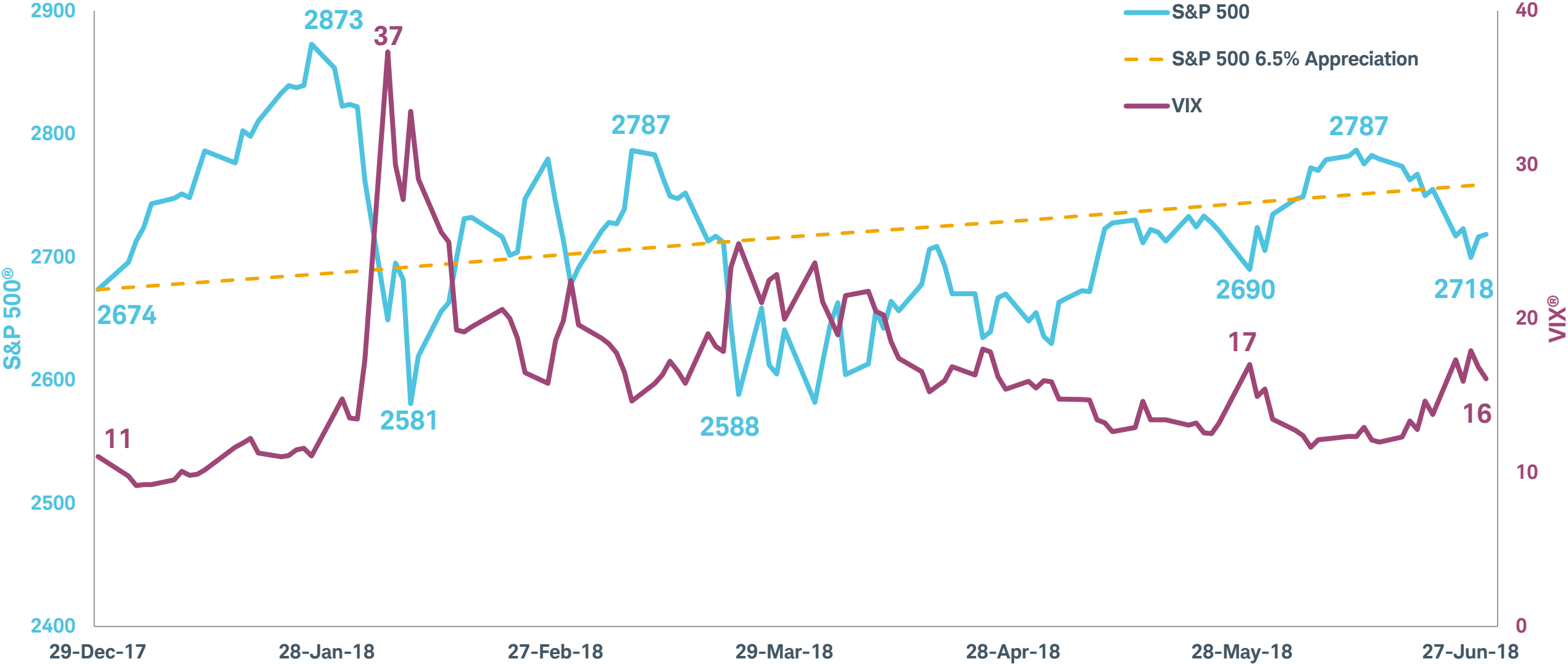
Walt
Bettinger

President and
Chief Executive Officer

Results through 1H18 highlight our consistent strategic focus and disciplined execution.

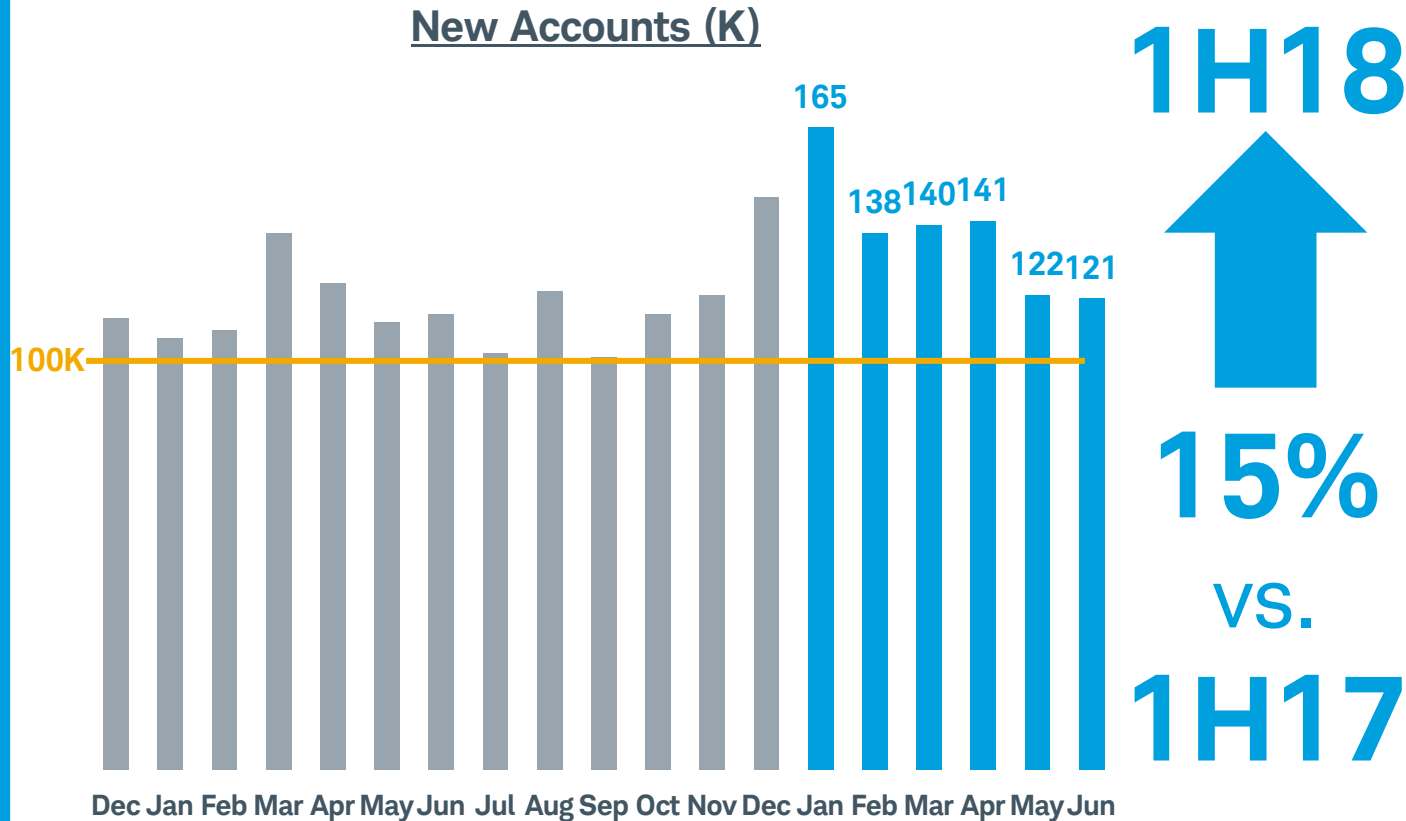
- We are winning in the marketplace through a consistent focus on our **“Through Clients’ Eyes” strategy** and guiding principles, including a **“no trade-offs” approach** to serving clients
- We are **building on already strong momentum** across the company
- We expect to drive ongoing success by staying **focused and disciplined**, continuing to **challenge the status quo** on behalf of investors

The economic recovery persisted through 1H18, yet markets felt volatile.

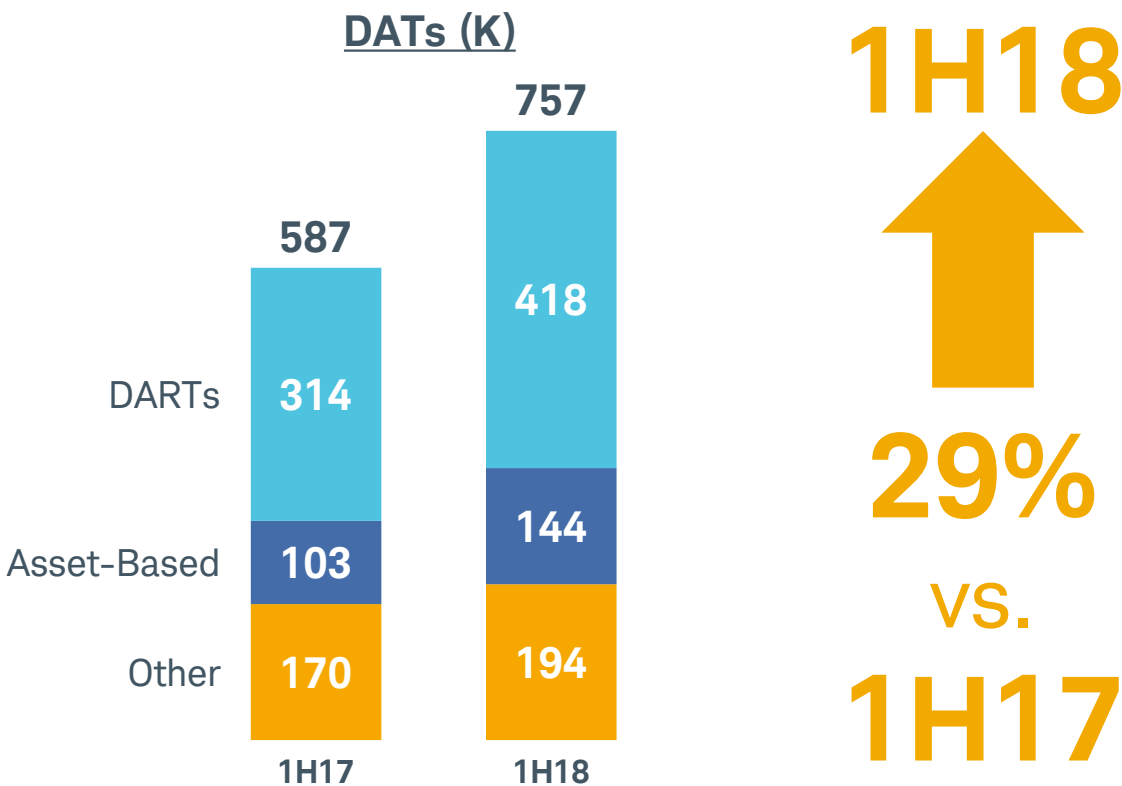


Investors remained engaged, opening more new accounts and trading more than 1H17...

June marked the 19th consecutive month of over 100,000 new accounts



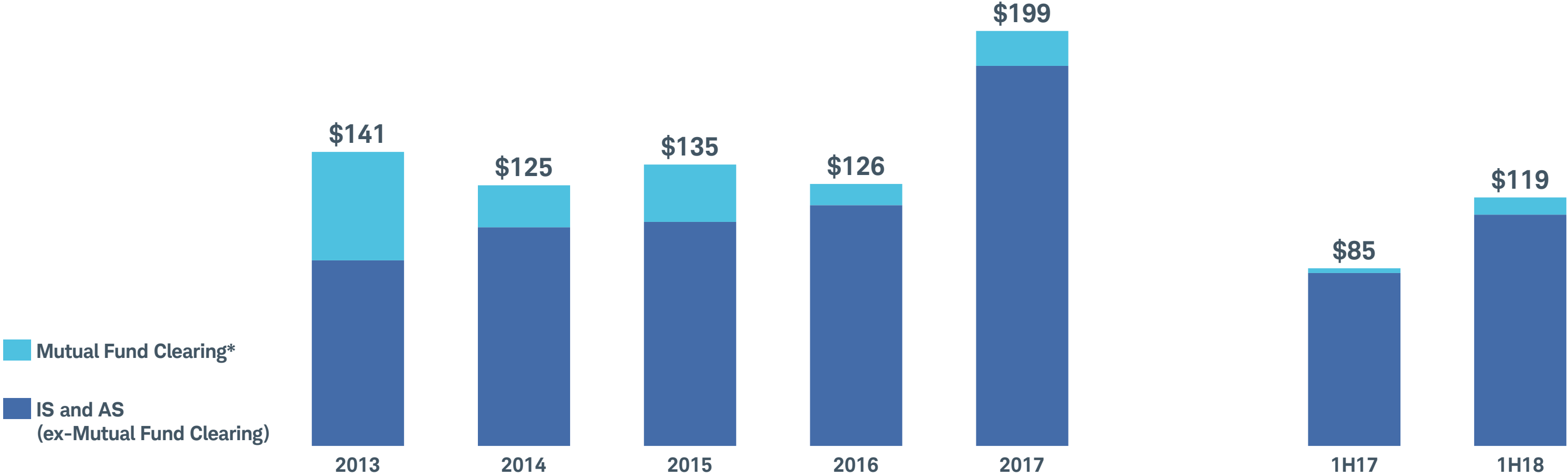
Record trading for 1H18 shows continued client engagement



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 both of our largest businesses contributed to record 1H18 core net new assets, nearing recent full-year totals.

Core Net New Assets (\$B)



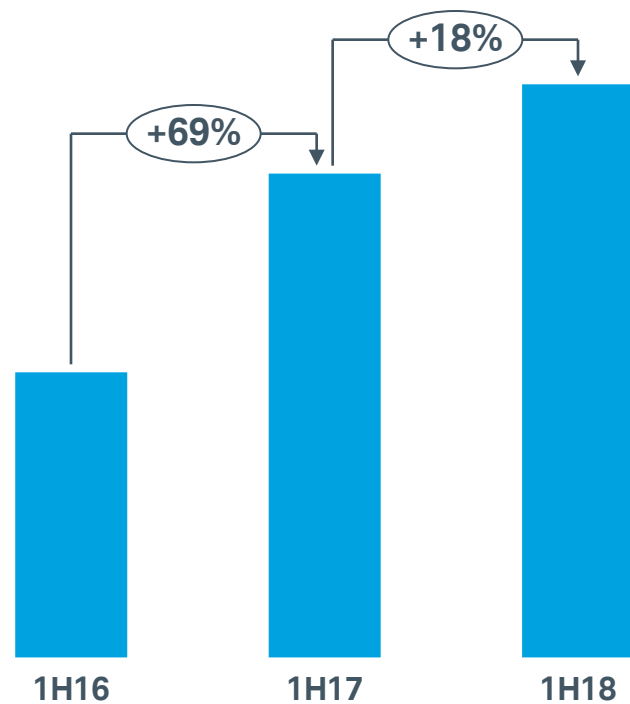
Note: Core net new assets = net new assets before significant one-time flows, such as acquisitions/divestitures or extraordinary flows (generally greater than \$10 billion) relating to a specific client. These flows may span multiple reporting periods.

* Includes all clearing flows under \$10 billion.

Following record-breaking results in 2017, Advisor Services is seeing ongoing momentum this year.

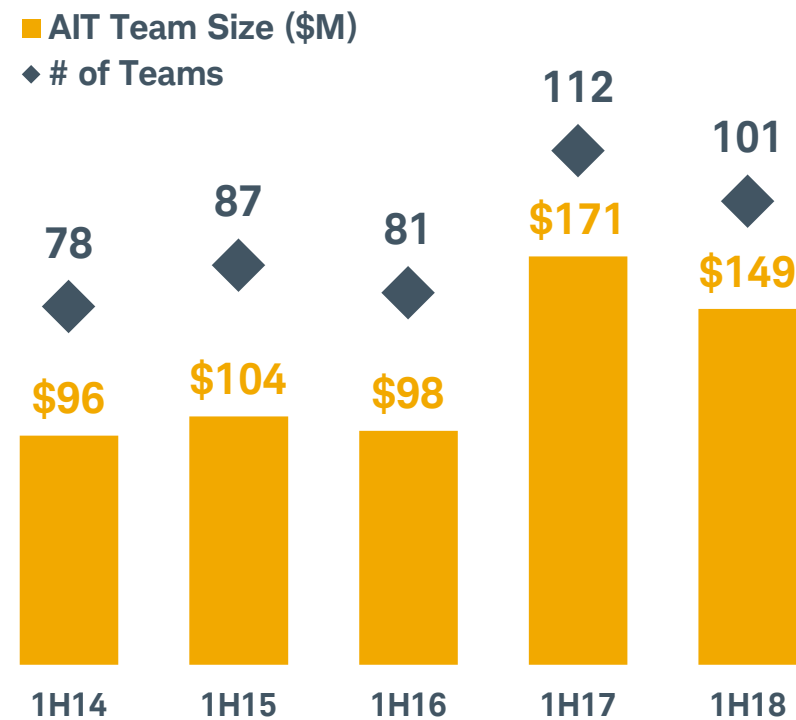
Advisor Services continued to gather more flows from competitors...

Net \$ TOA Flows



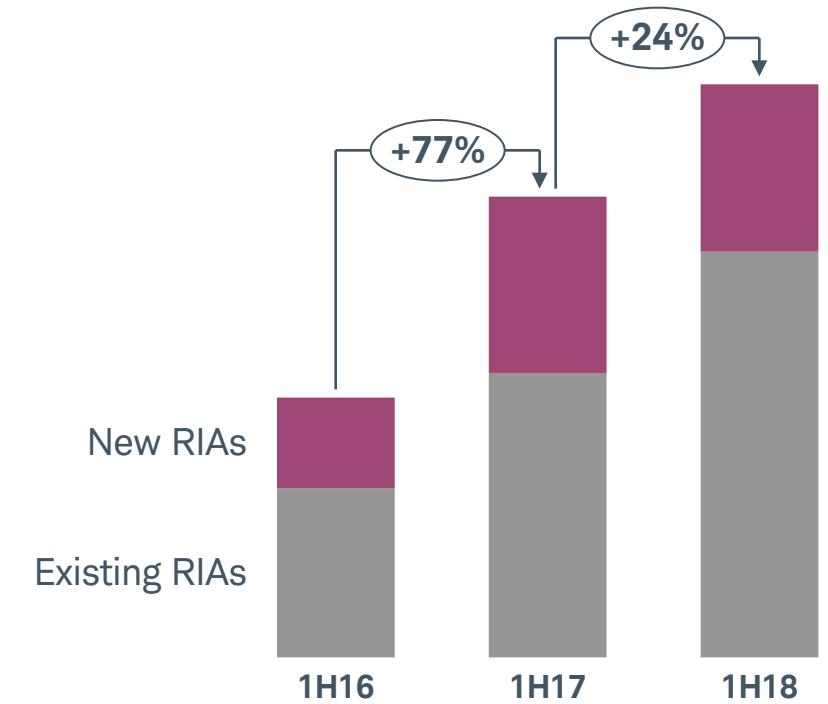
...as we have sustained our ability to win larger Advisors in Transition (AIT)...

of AIT Teams and Average AIT Size (\$M)



...all driving record NNA above 1H17's high-water mark

Advisor Services Institutional NNA

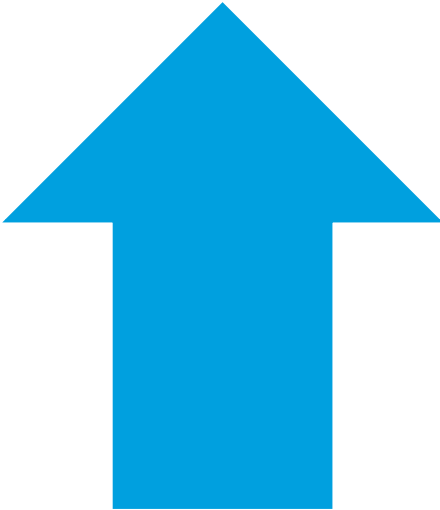


Note: Results reflect Advisor Services Institutional. TOA = Transfer of Accounts. Net TOA Flows represent total net TOA inflows from all competitors.

Retail investors brought us record asset inflows and utilized our advisory capabilities...

1H18 vs. 1H17

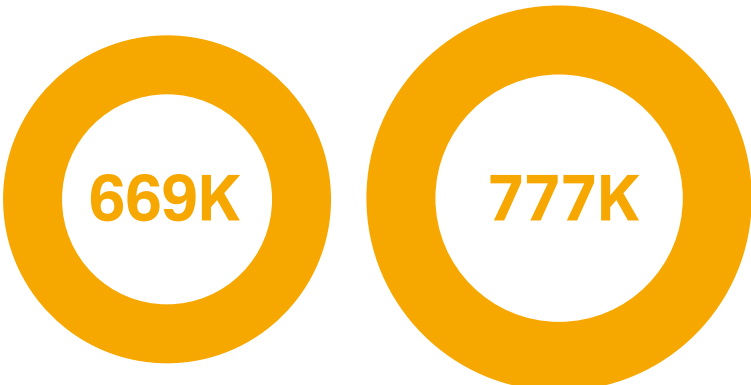
Retail gathered net new assets at record levels...



+46%

...as more clients enrolled in advised offers...

Total Accounts in Retail Advisory Solutions

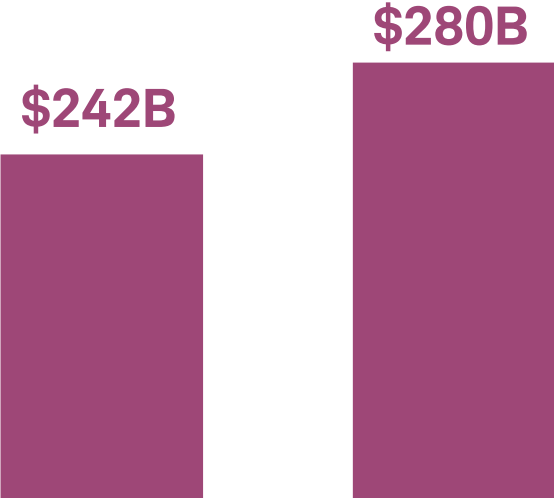


1H17

1H18

+16%

...and total assets in Retail and Other Advisory Solutions grew faster than total company assets.



1H17

1H18

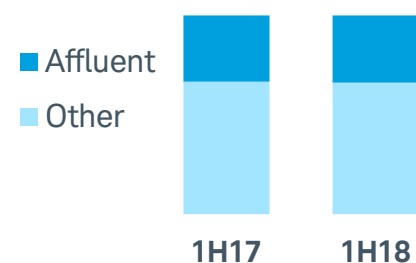
+16%

...as we work to attract clients of all demographics.

Young investors (<40) make up an important part of our Retail client base

~1 in 5 existing Retail clients is **under 40 years old**

53% of our new-to-Retail households are **under 40 years old**



While we attracted more <40 investors, the proportion of **affluent new Retail clients** remained consistent

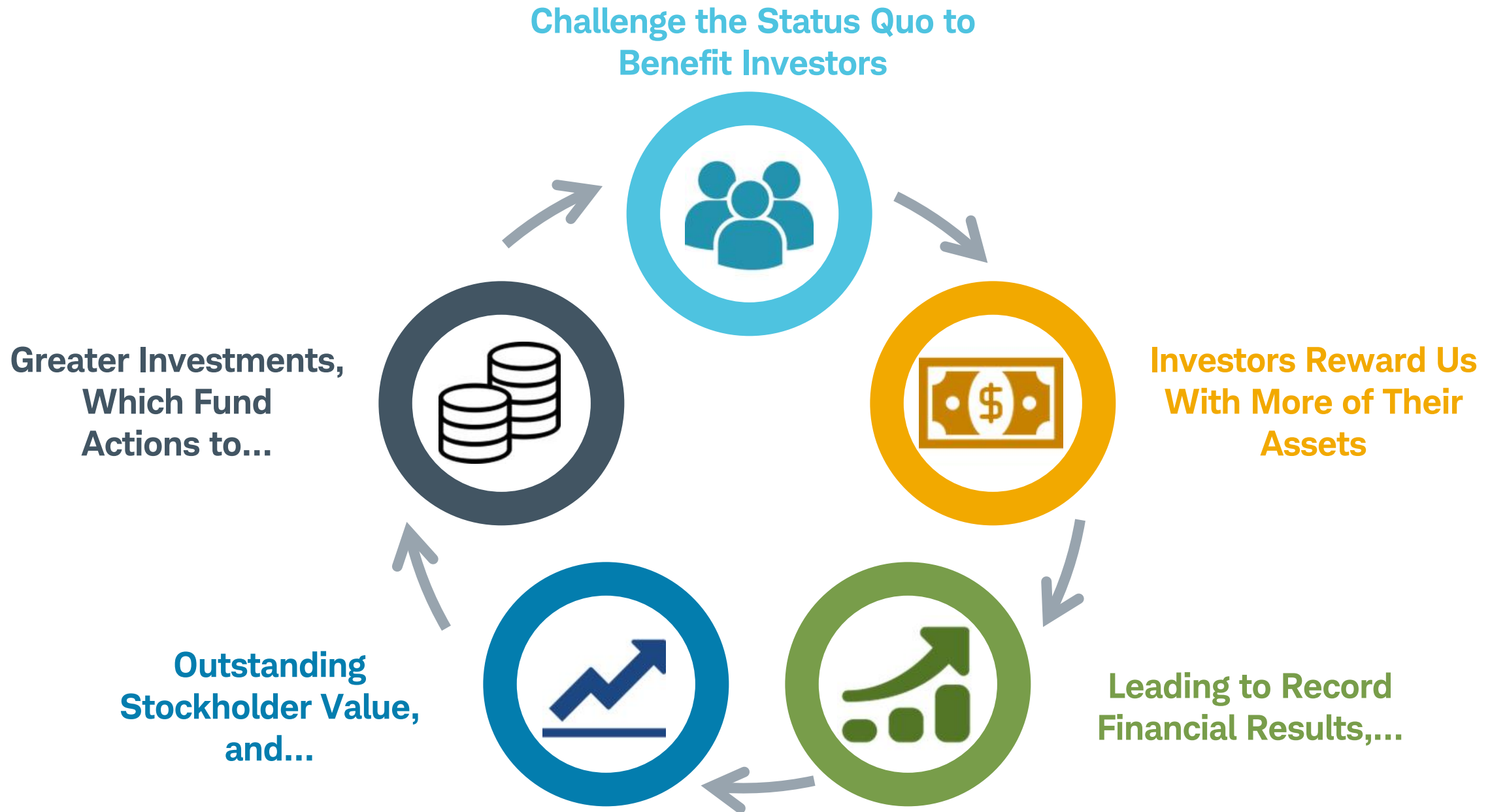
Our Retail clients continue to build their financial futures at Schwab

\$360K Average Retail household asset size

840K Affluent clients

\$1.5M Average asset size of an affluent client

Our results demonstrate the “Virtuous Cycle” working as intended...



...with our guiding principles at the heart of our record performance.



Trust is everything. Earned over time. Lost in an instant.



Price matters. More than ever. And in our industry more than most.

Easy



Clients deserve efficient experiences. Every time.



Every prospective or existing client is critical to our future growth. No matter how large or small.



Actions matter more than words. Clients, press, influencers, and employees will give credit to what we do vs. what we say.

We sustain growth by investing in our “no trade-offs” combination of value, service, transparency, and trust...

Investor Services and Advisor Services

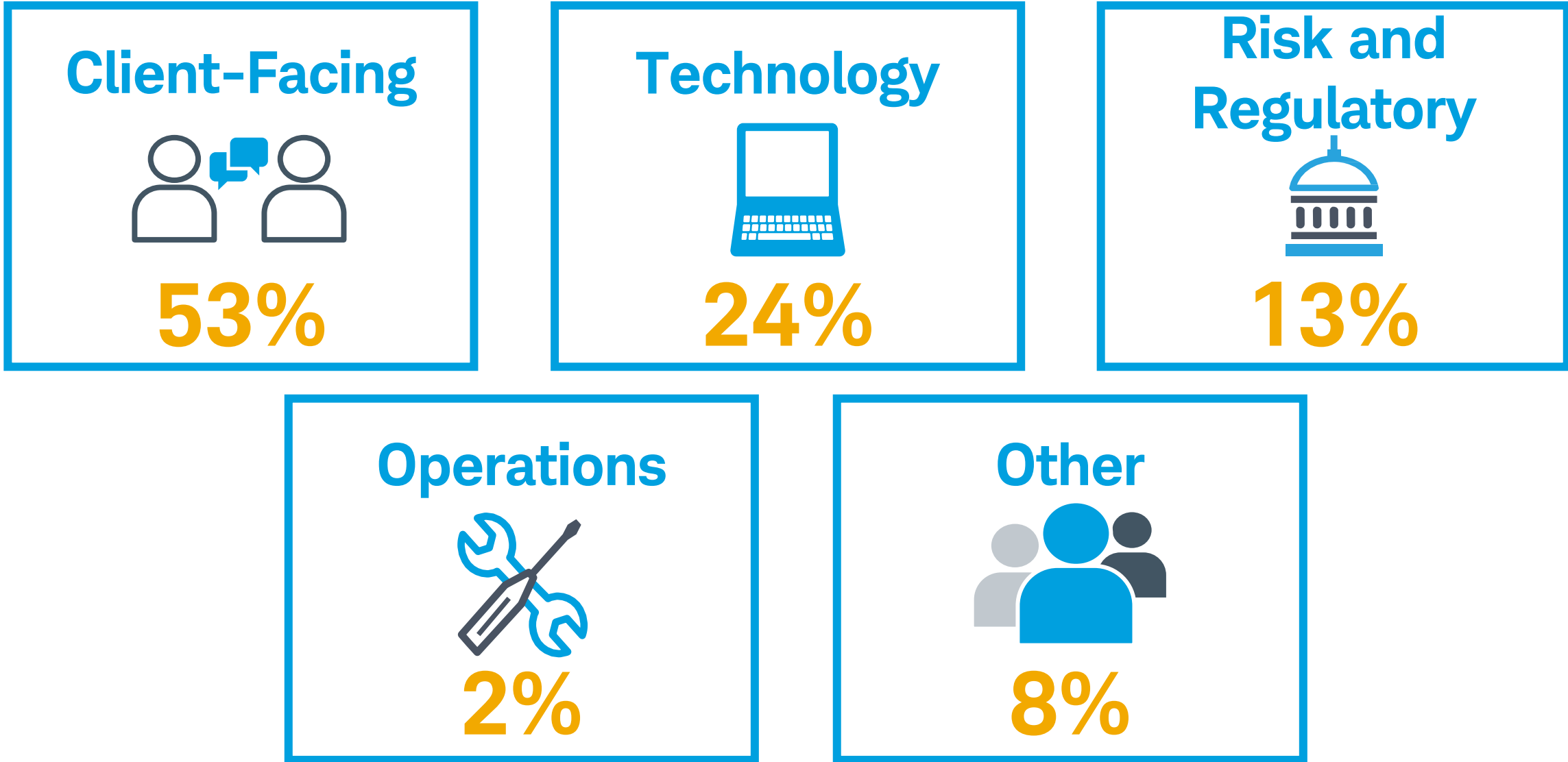
- Continue to offer innovative products at a great value
- Reach investors to deliver more relationships
- Expand retail distribution channels
- Offer the most complete RIA platform
- Advance awareness of the independent difference
- Invest in the RIA industry’s future
- Maintain service levels in the face of extraordinary activity

Technology, Infrastructure, and Regulation

- Continue progress on multiple fronts:
 - **Application Modernization:** moving away from the legacy mainframe environment
 - **Business Process Transformation:** streamlining the way we do business
 - **Digital Accelerator:** leading disruption on behalf of our clients
 - **Cybersecurity**
 - **Risk and Regulatory Investments:** advanced approaches, enhanced prudential standards, etc.

...which includes additional client-facing, technology, and risk/regulatory roles.

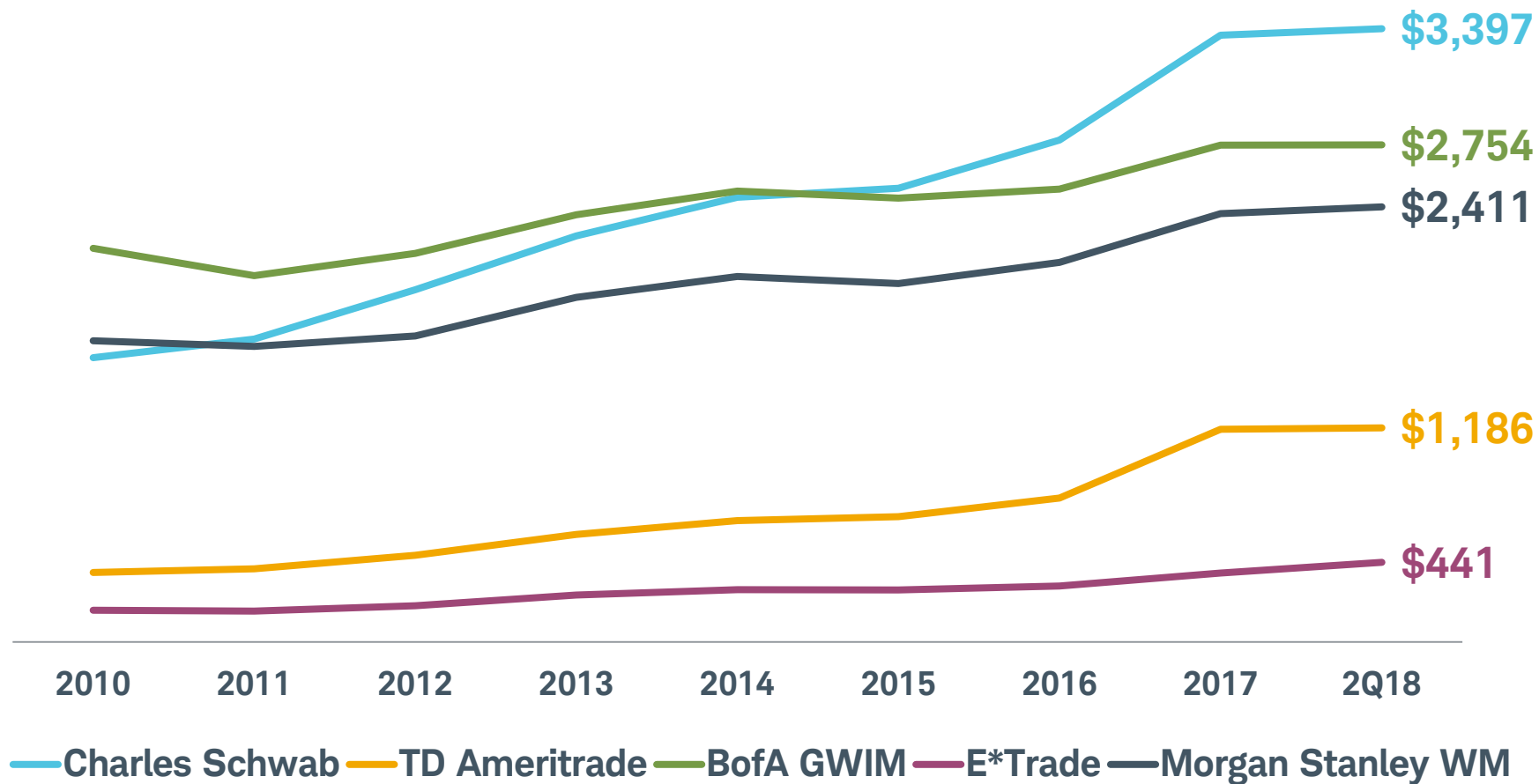
The ~1,800 increase in full-time equivalent employees over 1H17 is comprised of:



Our size, scale, and efficiency give us the flexibility to continue disrupting the industry...

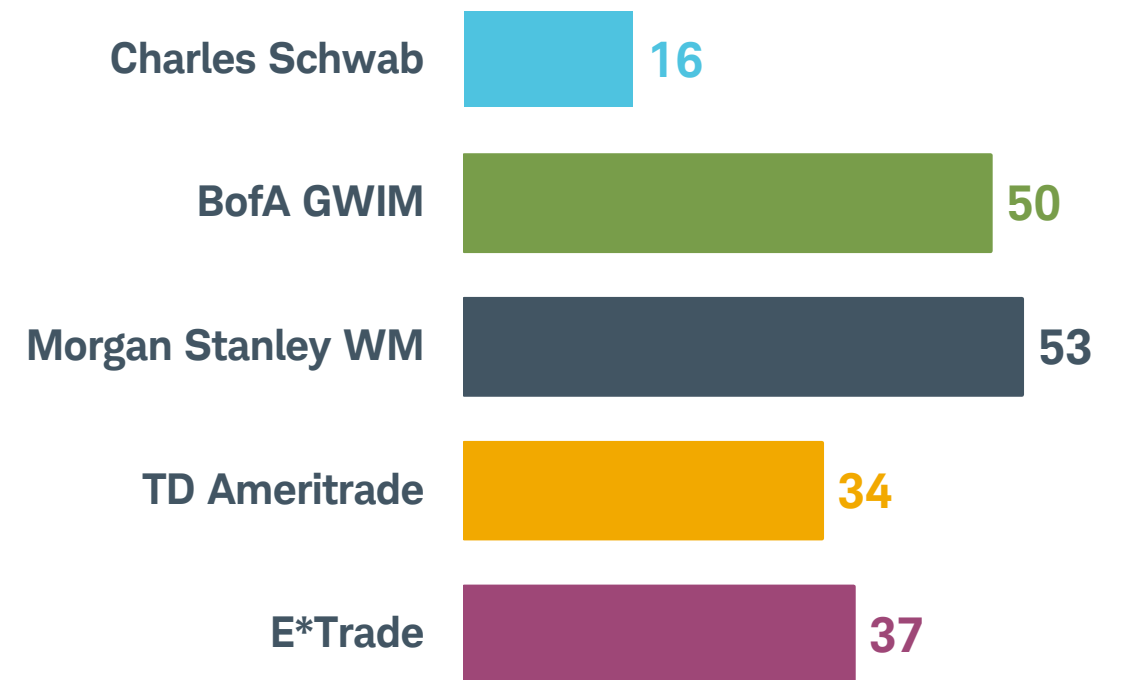
We have maintained our client asset leadership position since 2015

Total Client Assets (\$B)*

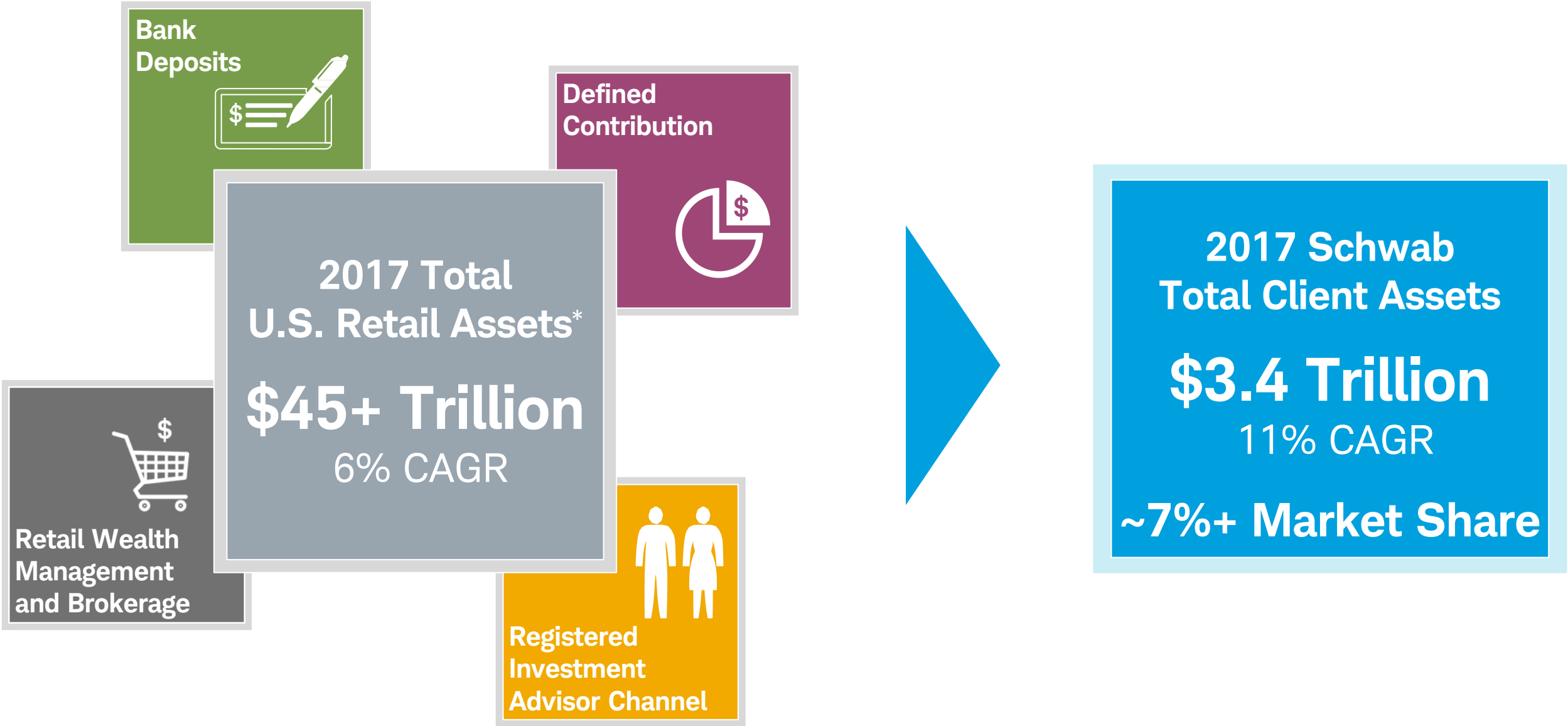


Our scale and efficiency remain key competitive advantages

2Q18* Expense to Average Client Assets (bps)



...and we can use that flexibility to pursue the enormous market share opportunity still ahead of us.



Results through 1H18 highlight our consistent strategic focus and disciplined execution.

- We are winning in the marketplace through a consistent focus on our **“Through Clients’ Eyes” strategy** and guiding principles, including a **“no trade-offs” approach** to serving clients
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Peter Crawford

Executive Vice President and
Chief Financial Officer

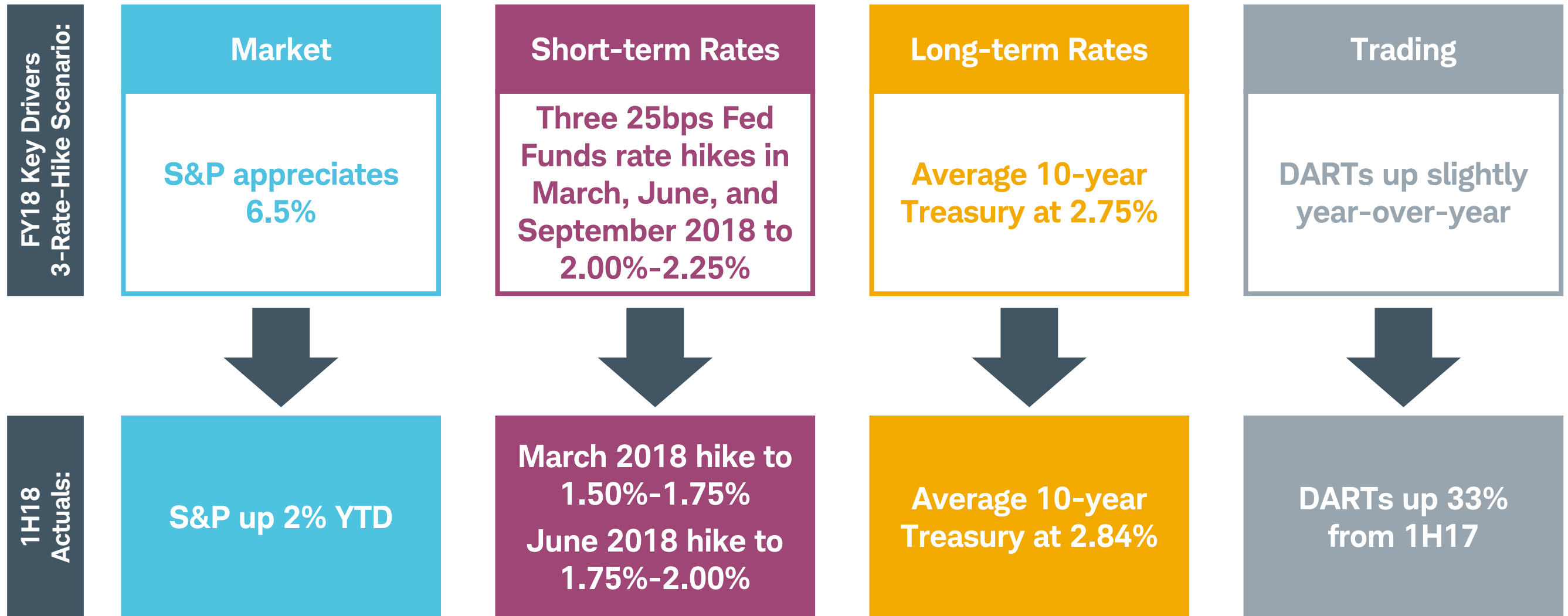
Our second quarter results capped a remarkable first half performance in 2018.

- Record asset gathering, strong client engagement, and a favorable economic environment all supported our results
- We continued to execute on our sweep transfer strategy and crossed the \$250 billion consolidated asset threshold while managing capital effectively
- As macro events unfold in the second half of 2018, our unchanged spending expectations imply the potential for scenario upside

Today we'll discuss:

Q2 2018 results
Capital picture
2018 financial outlook

Most key macro drivers performed better than our assumptions.



Client metrics reached new levels.

1H18 vs. 1H17

**Total Core Net
New Assets**

\$119 billion

↑ 40%

**Total Advised Assets
(EOP)**

\$1.77 trillion

↑ 15%

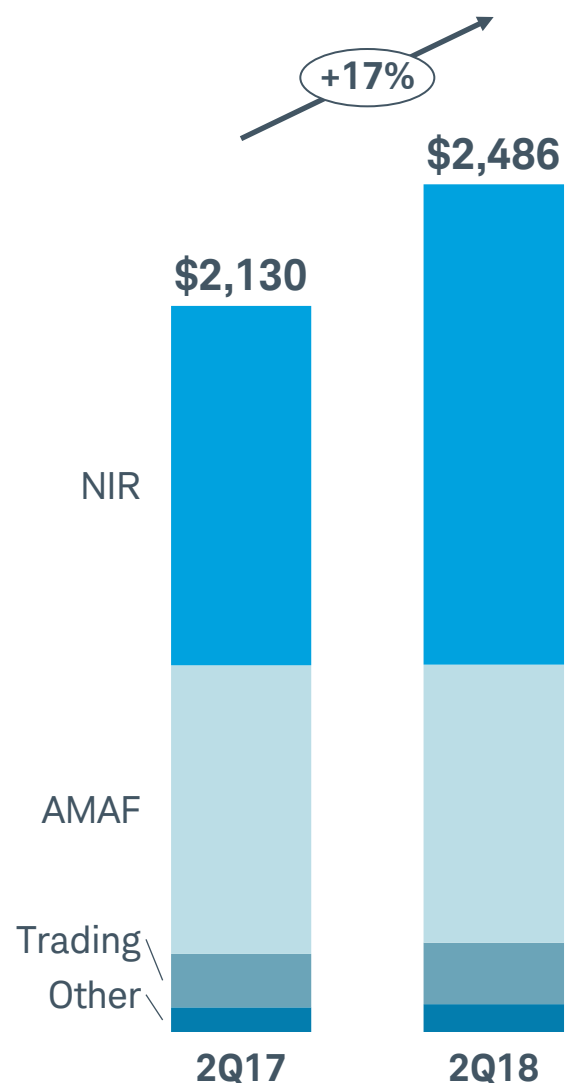
**Interest-Earning
Assets (EOP)**

\$253 billion

↑ 19%

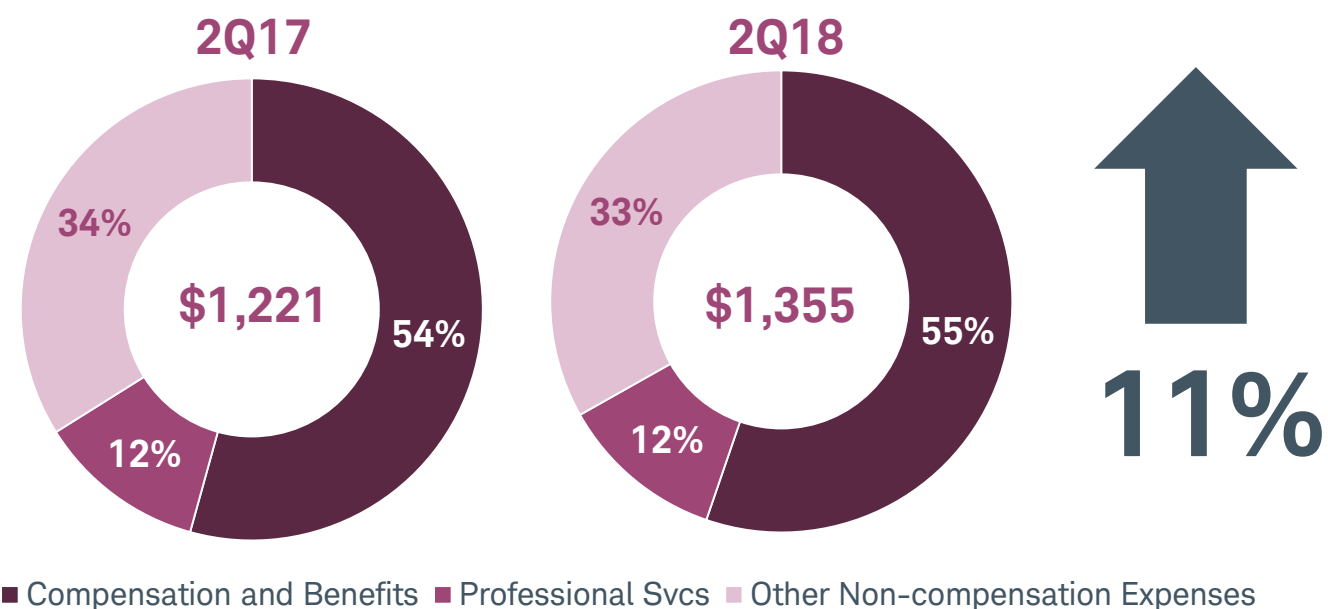
We generated a 17% increase in revenues, actively invested in the business...

Total Net Revenues (\$M)



- Twelfth consecutive quarter of record revenues
- Net interest revenue rose 34% to a record \$1.4 billion, driven by higher interest rates and larger client cash sweep balances
- Asset management and administration fees decreased 4% 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 15%

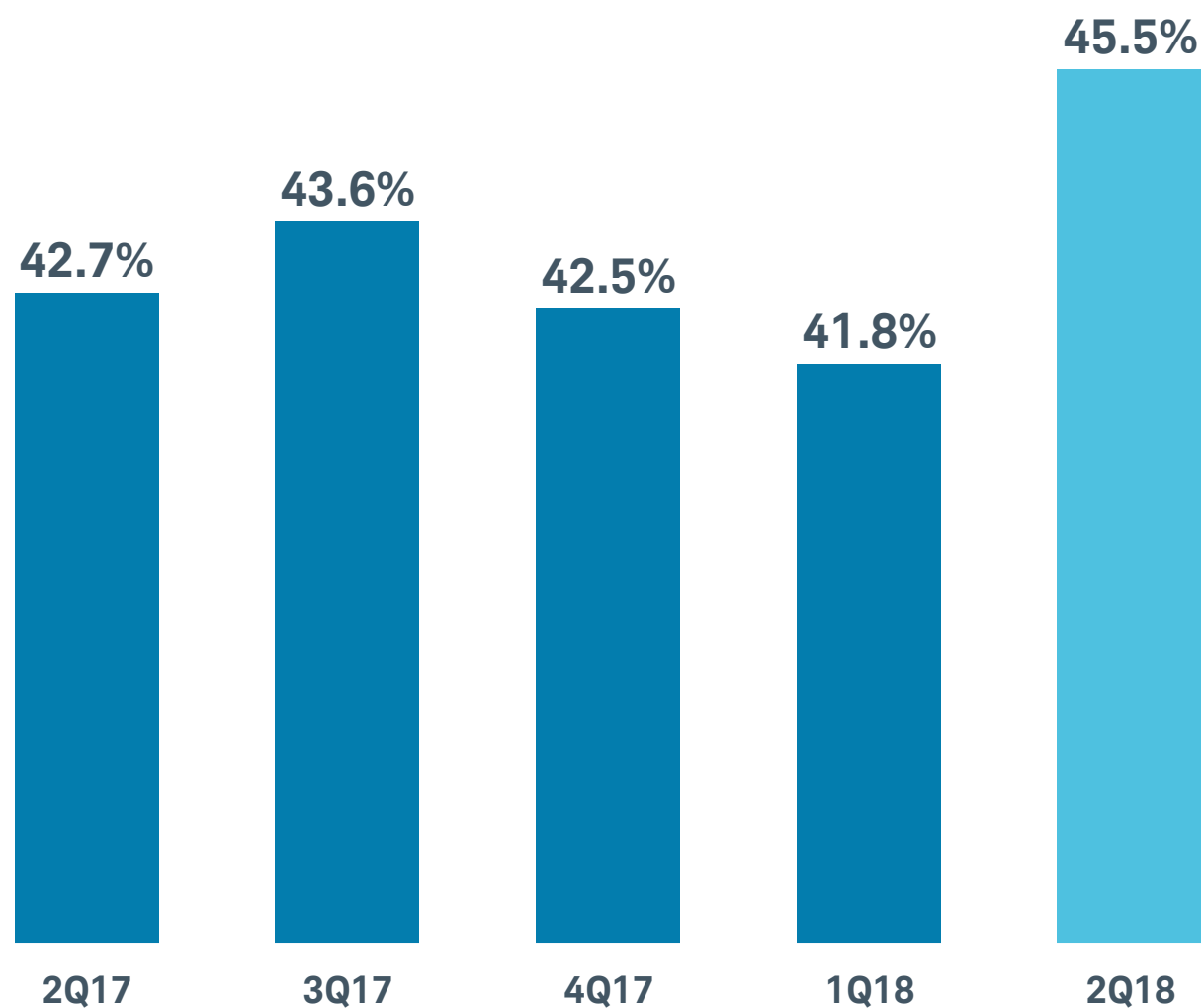
Total Expenses (\$M)



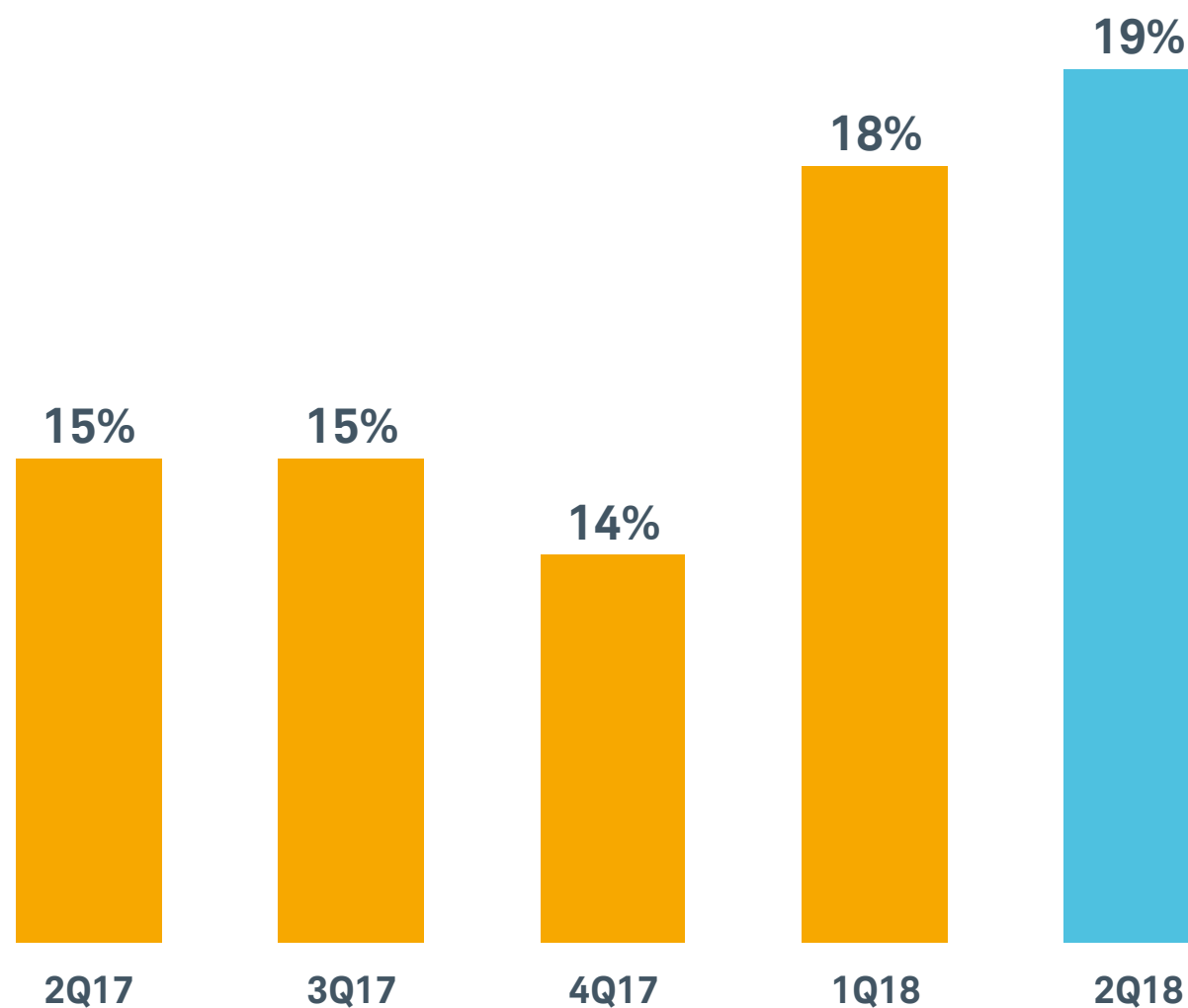
- Compensation and benefits grew 12% as a result of hiring to support our expanding client base
- Non-compensation expenses reflected ongoing investments for fueling growth

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

Pre-tax Profit Margin



Return on Equity



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

| (\$M, EOP) | 2Q17 | 1Q18 | 2Q18* |
|-------------------------------|-----------|-----------|-----------|
| Total Assets | \$220,601 | \$248,320 | \$261,882 |
| Bank Deposits | \$162,300 | \$190,184 | \$199,922 |
| Payables to Brokerage Clients | \$33,039 | \$31,088 | \$30,347 |
| Short-term Borrowings | \$300 | - | - |
| Long-term Debt | \$3,518 | \$4,128 | \$5,789 |
| Stockholders' Equity | \$17,489 | \$19,330 | \$20,097 |
| Parent Liquidity | \$2,451 | \$3,049 | \$4,693 |
| Tier 1 Leverage Ratio | 7.4% | 7.5% | 7.6% |

We completed **\$20 billion** in sweep transfers from sweep money market funds in 2Q18

We utilized as much as **\$5 billion** in FHLB advances during the quarter to invest before sweep transfers

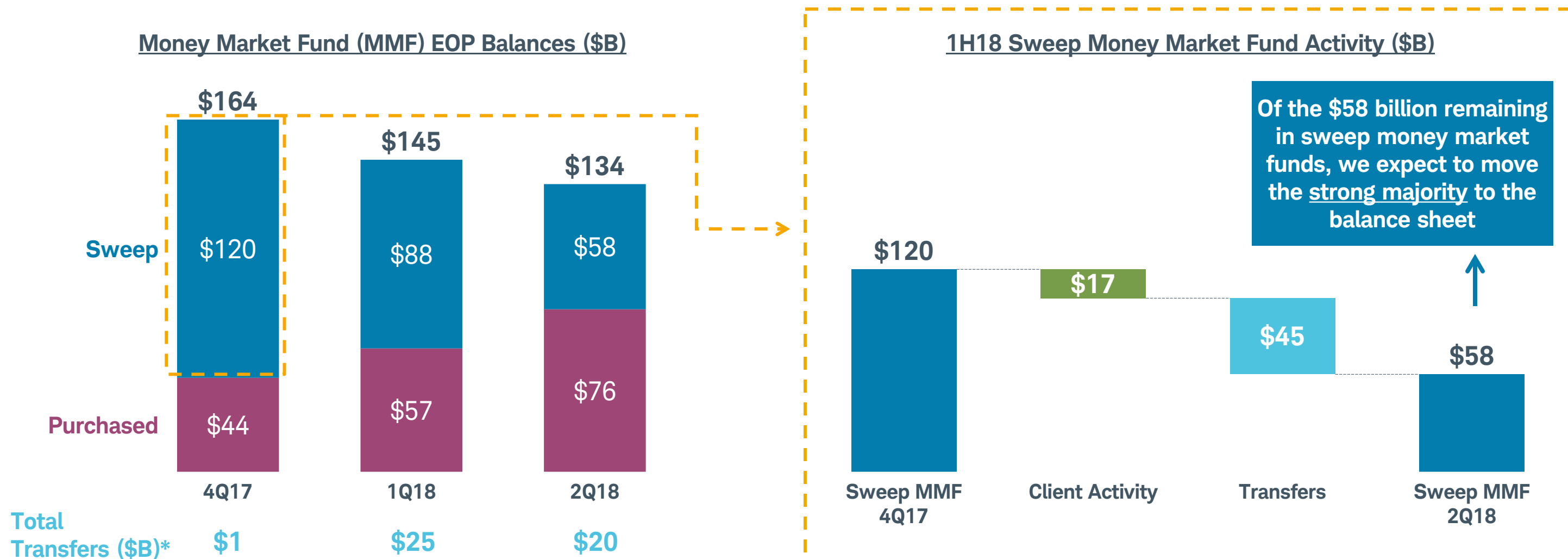
We issued **\$1.95 billion** of senior notes for general corporate purposes, including **redeeming \$275 million** in outstanding 2.20% senior notes and maintaining appropriate liquidity given the growth we're achieving

Our Tier 1 Leverage Ratio **increased slightly** as we have generated more organic capital

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.

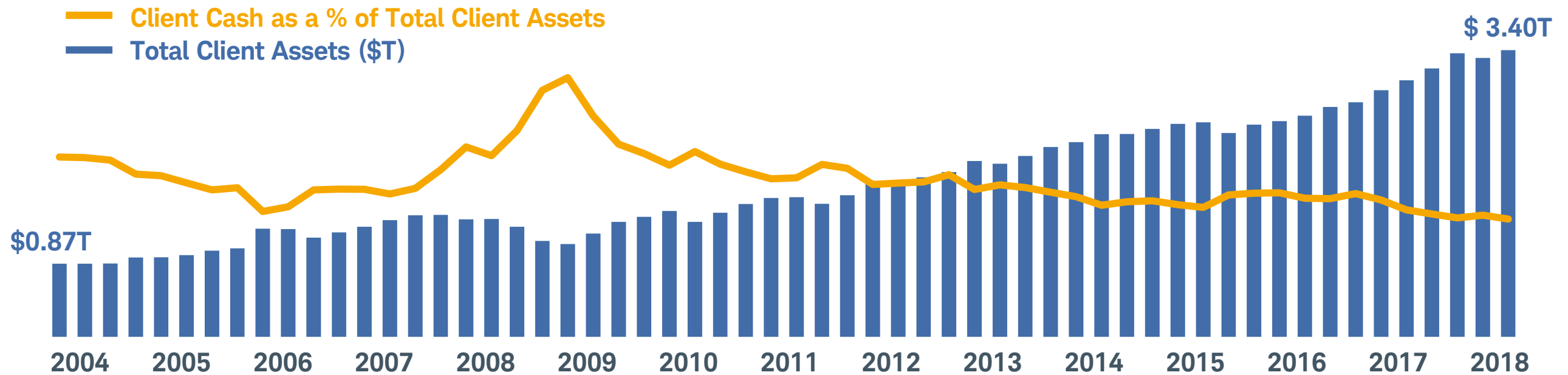
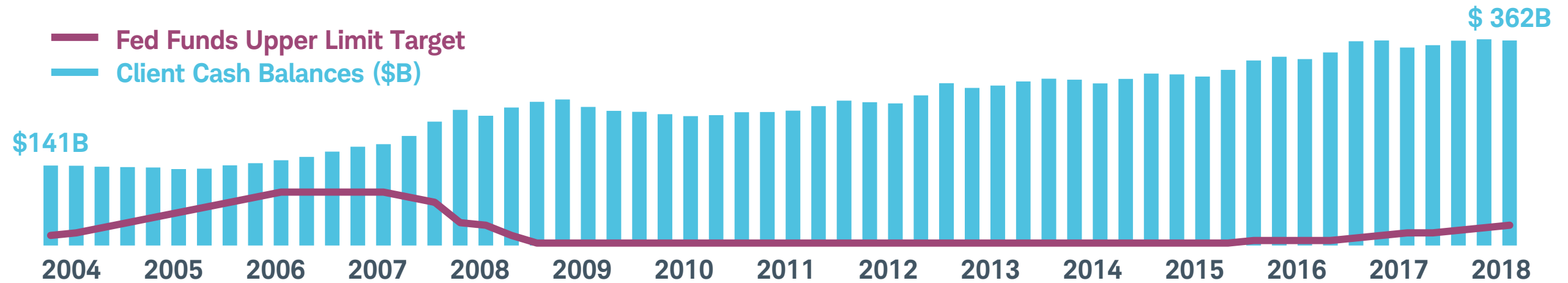
* Preliminary.

We are progressing with our sweep transfer opportunity.



Our balance sheet has grown 8% through 1H18, in line with our FY18 growth expectation of at least 15%

Historically, client cash has grown with assets, rising above any rate or market-driven plateaus.



Entering the second half of 2018, we see potential upside to our three-rate-hike scenario.

| | Revenue | Gap between Revenue and Expense Growth | Pre-tax Profit Margin |
|---------------|---------|--|-----------------------|
| Scenario: | 13%-15% | 200-400bps | 43%-45% |
| 1H18 Results: | 16% | 410bps | 43.7% |



Given 1H performance and with one additional 2018 rate hike, FY18 results could reach:

| | | | |
|-------------|---|---|--|
| FY18 Trend: | Mid-to-upper double-digit revenue growth... | ...and a gap of 400-600bps , assuming consistent quarterly spending... | ...leading to a pre-tax profit margin of around 45% |
|-------------|---|---|--|



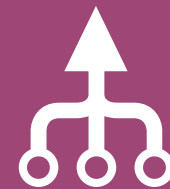
We believe that our 1H18 performance puts us in a formidable position for the future.

- Record asset gathering, strong client engagement, and a favorable economic environment all supported our results
- We continued to execute on our sweep transfer strategy and crossed the \$250 billion consolidated asset threshold while managing capital effectively
- As macro events unfold in the second half of 2018, our unchanged spending expectations imply the potential for scenario upside

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
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