

Winter Business Update

February 5, 2019

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SCHWAB

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Introduction

Rich
Fowler

Senior Vice President
Investor Relations

Agenda

Walt Bettinger, President and Chief Executive Officer

Joe Martinetto, Senior Executive Vice President and Chief Operating Officer

Break

Jonathan Craig, Senior Executive Vice President

Bernie Clark, Executive Vice President, Advisor Services

Terri Kallsen, Executive Vice President, Investor Services

Lunch

Peter Crawford, Executive Vice President and Chief Financial Officer

Close

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,” “remain,” “drive,” “lead,” “record,” “investment,” “expand,” “build,” “sustain,” “opportunity,” “enhance,” “improve,” “potential,” “maintain,” “increase,” “outlook,” “likely,” “moderate,” “estimate,” “contemplate,” and other similar expressions. These forward-looking statements relate to: growth in the client base, client accounts and assets; investments to fuel and support growth, serve clients, and drive scale and efficiency; client value and pricing; market share; capital returns; disruptive actions; growth in revenues, earnings, and profits; stockholder value; the company’s views of trends relating to client views, growth, competition and pricing; transfers to sweep; target dividend payout ratio; priorities for excess capital; digital transformation; operating leverage; expense growth; financial formula performance; Tier 1 Leverage Ratio operating objective; client cash sorting; 2019 outlook assumptions and financial expectations; and estimated revenue impact from revenue sensitivities.

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 profit margin; the company’s ability to manage expenses; regulatory guidance; client sensitivity to rates; the timing and amount of transfers to 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 **February 5, 2019** (or such earlier date as may be specified herein). The company makes no commitment to update any of this information.



CORPORATION

Walt Bettinger

President and
Chief Executive Officer

The Schwab business model – yesterday and tomorrow, a story of ongoing success.

- We believe that the Virtuous Cycle, driven by our “**Through Clients’ Eyes**” strategy, has and will continue to **attract assets**, as clients value our “**no trade-offs**” approach
- We remain focused on both **growth and efficiency** to keep us in a **competitively-advantaged position** well into the future, and with \$45 trillion in U.S. Retail Assets, there is significant opportunity to grow our share
- We are now on course to resume meaningful **capital returns to owners**, a noteworthy complement to our growth trajectory

2018 capped a remarkable decade of the Virtuous Cycle working as intended.

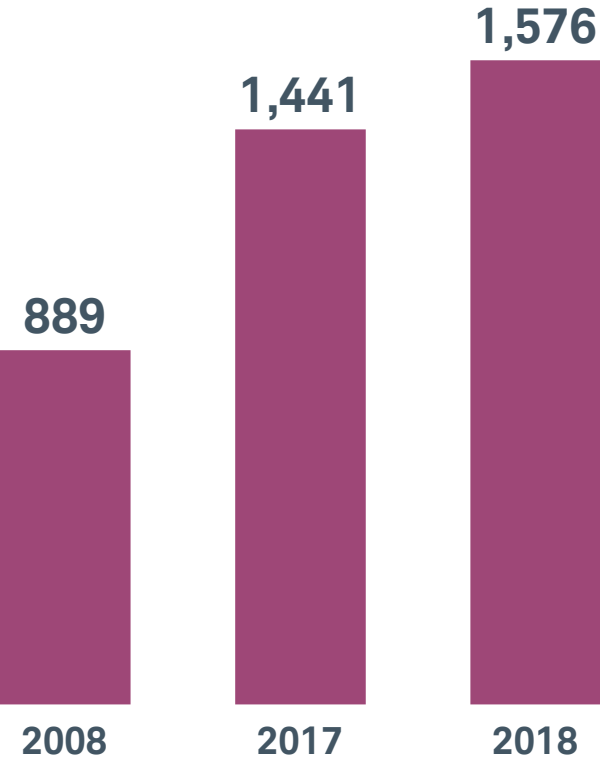


Since 2008, our client activity has achieved new heights.



Clients are joining Schwab at a record pace

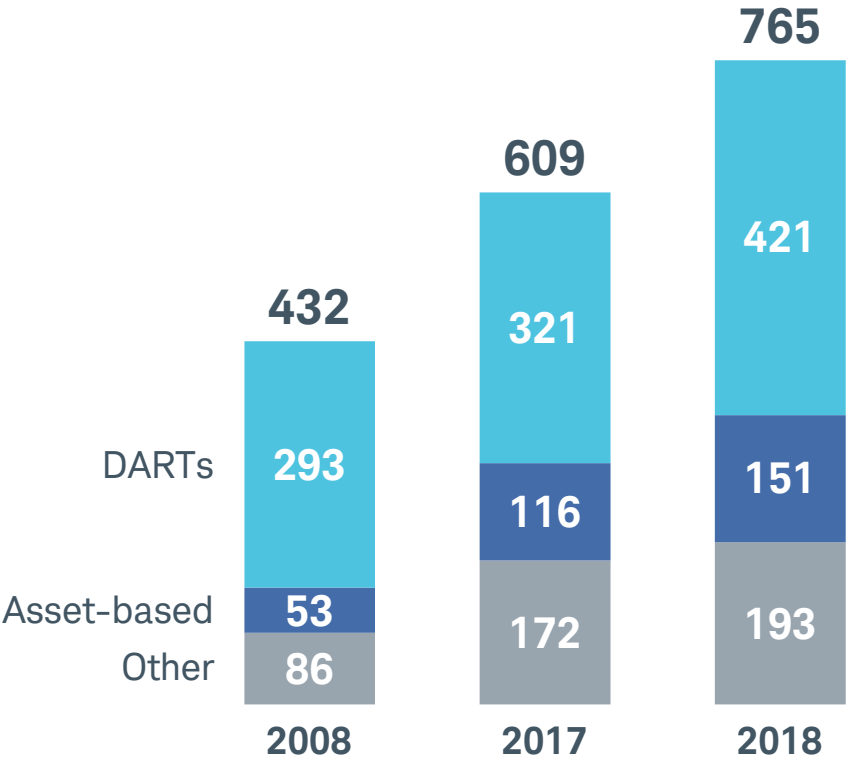
New Brokerage Accounts (K)



**+77%
vs. 2008**

Trading reached an all-time high in 2018

DATs (K)



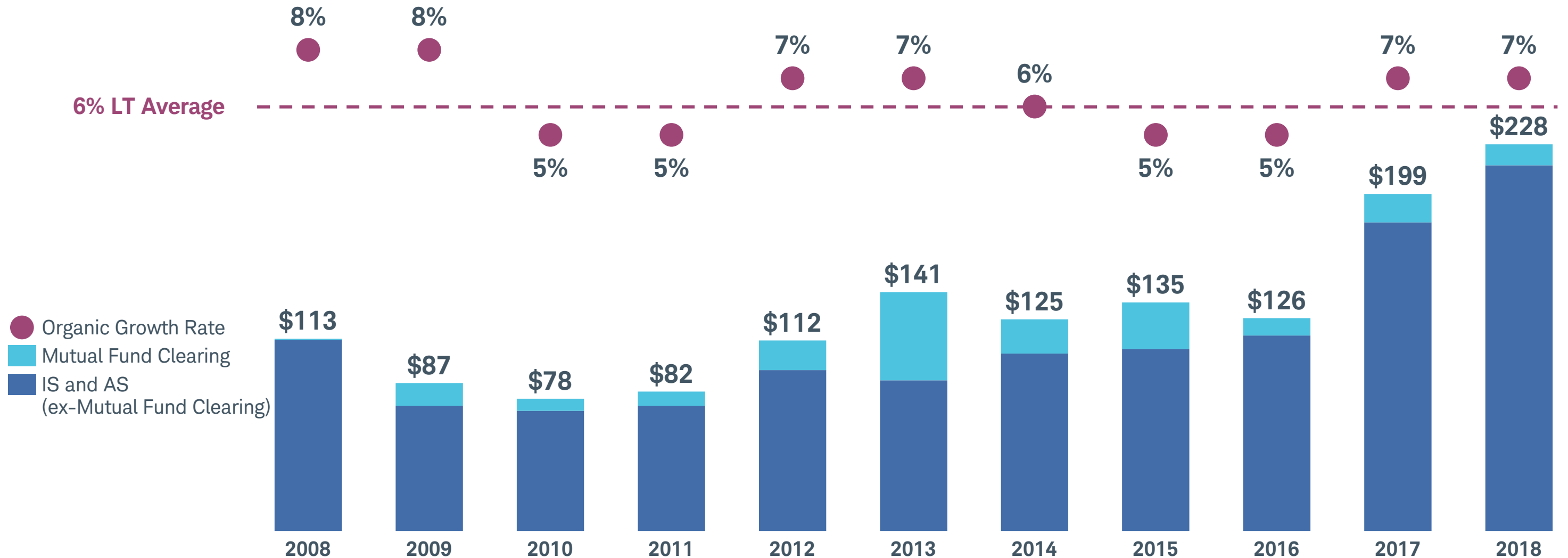
**+77%
vs. 2008**

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 Mutual Fund OneSource® funds and ETFs, and other proprietary products.



Last year, core NNA surpassed \$200 billion, with organic growth above our long-term average.

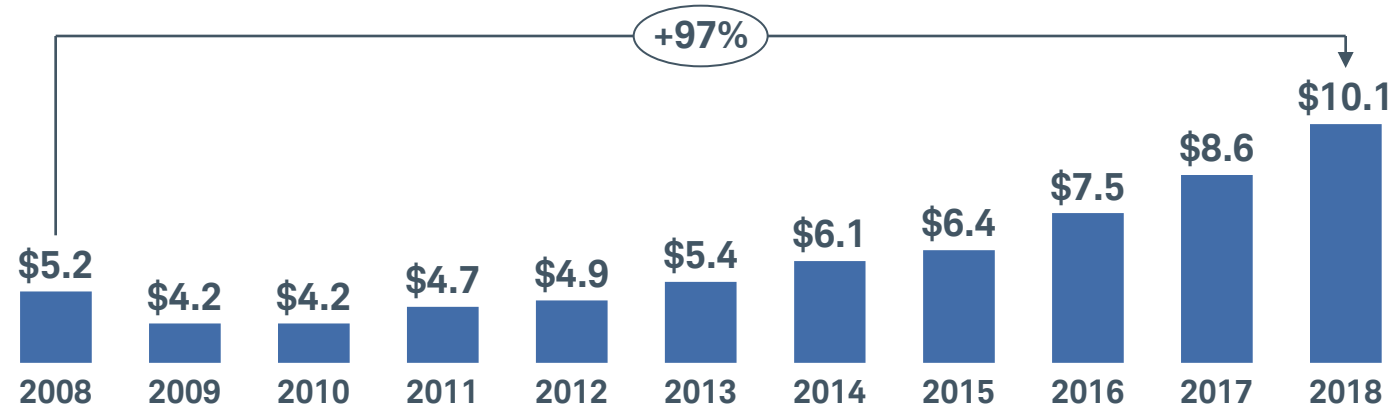
Core Net New Assets (\$B) and Organic Growth Rate (%)



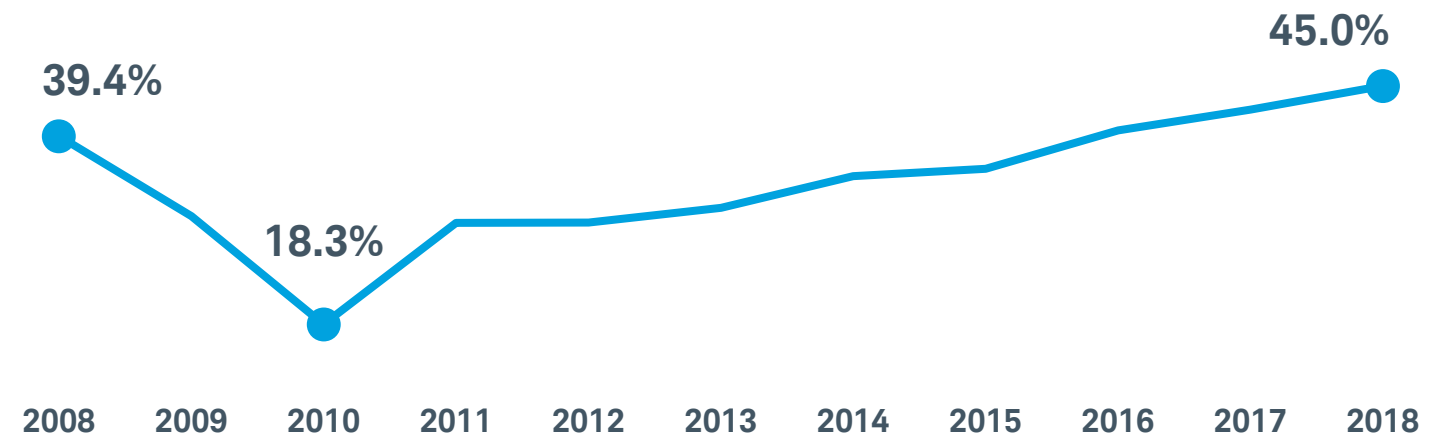
Our success with clients helped to drive outstanding performance.



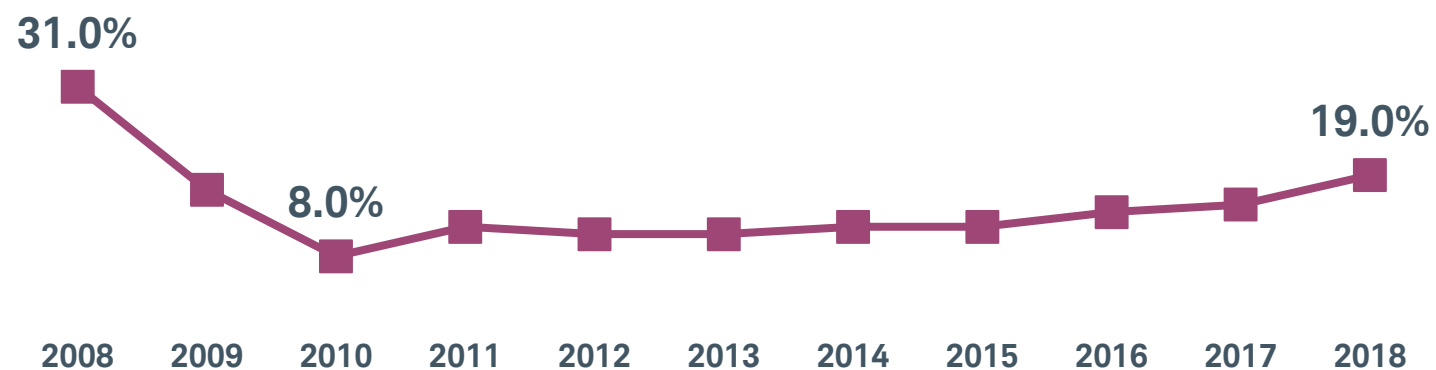
Revenue (\$B)



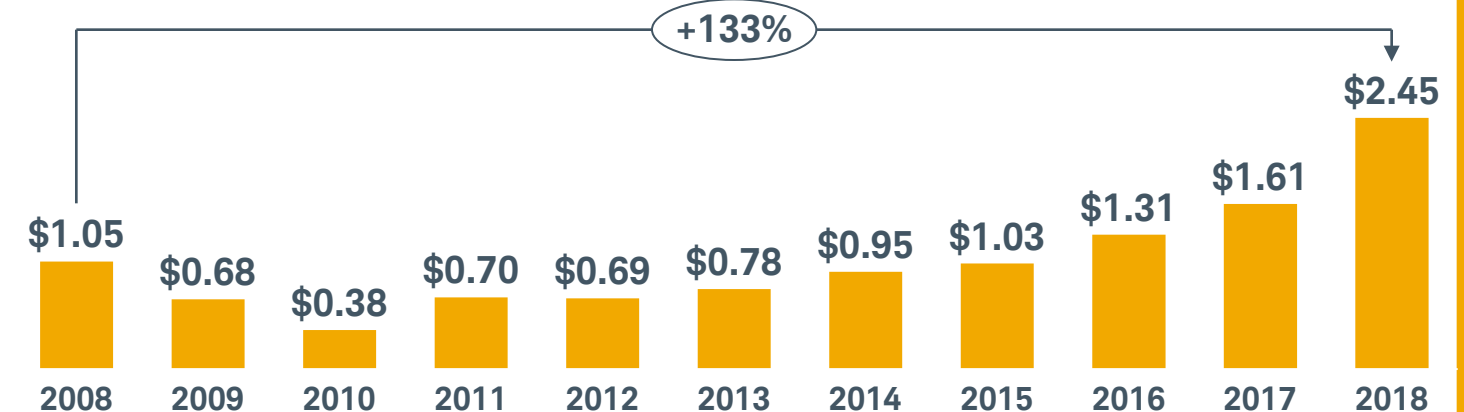
Pre-tax Profit Margin



Return on Equity



Diluted Earnings Per Share



All of this has enabled us to continue to invest in the business and our clients.



2008 vs. 2018

Headcount



+46%

Project Spending



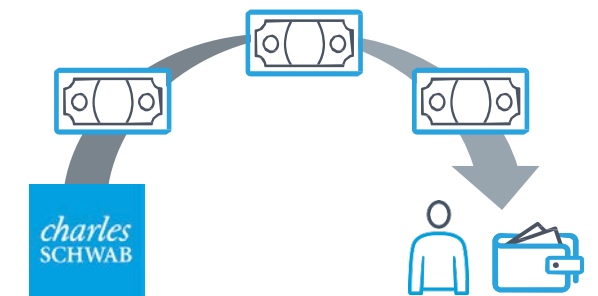
+166%

Marketing



+29%

ROCA

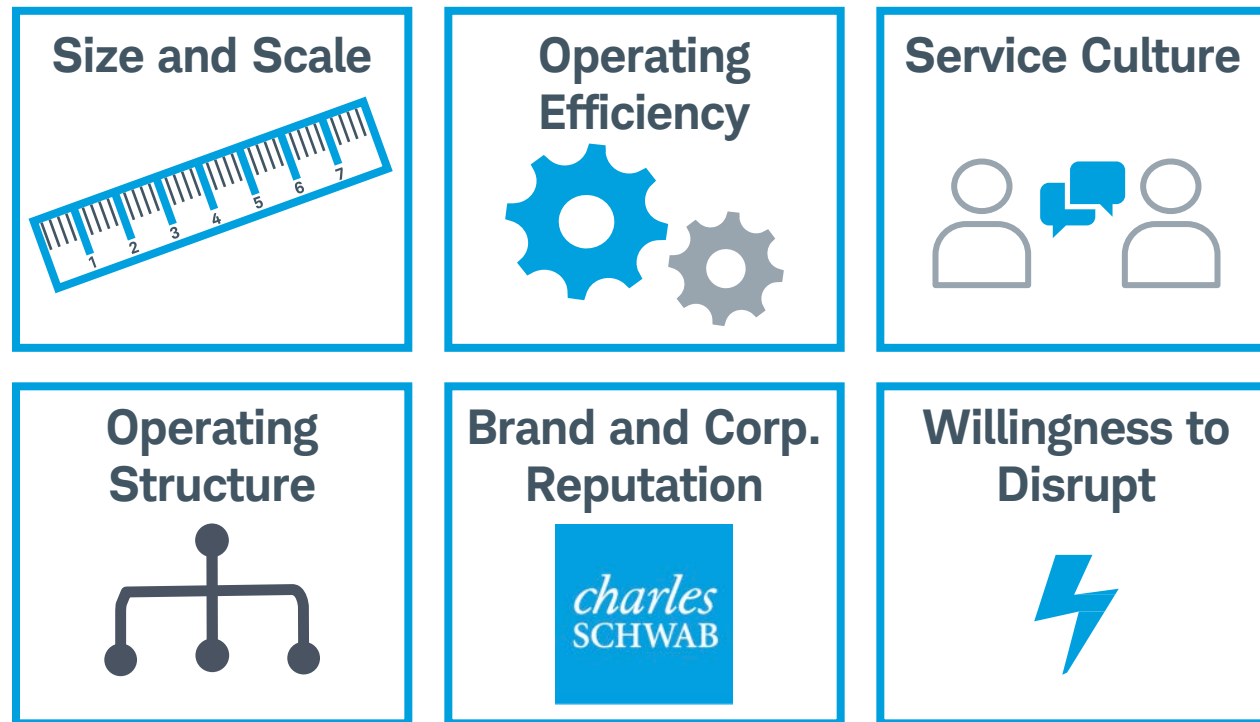


-23%

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

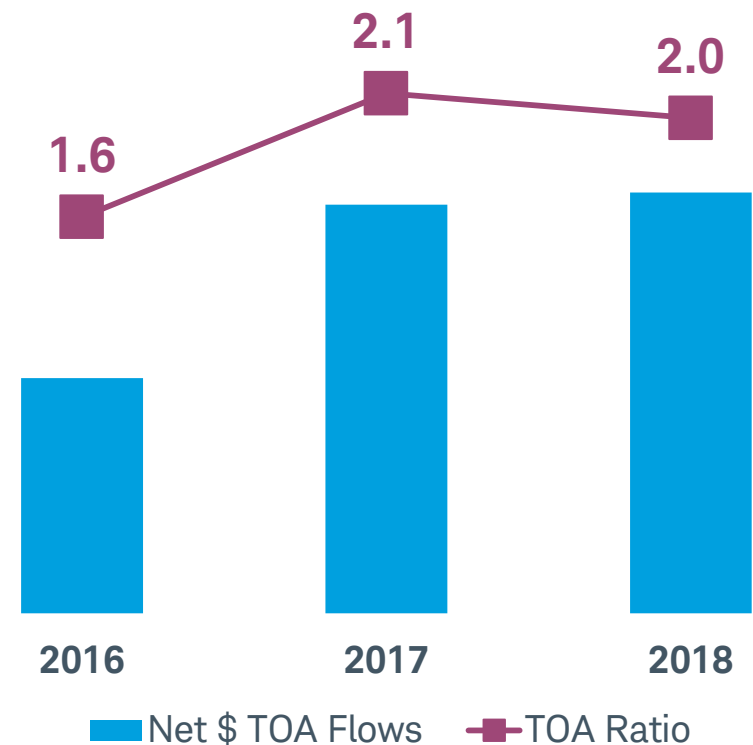
Our competitive advantages make it difficult for others to replicate our client offerings because we have the flexibility to enhance value and lower pricing for clients...

Key Competitive Advantages



...and our efforts have paid off

TOA Ratio and Net \$ TOA Flows



We believe we are
well positioned to
continue driving for
future success



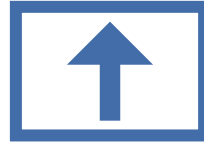
Looking further out – our updated views of longer-term trends that inform our strategy.

Client Views



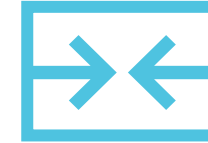
- Traditional expectations of price/quality trade-offs are breaking down all across our economy. Firms offering world-class **relationships, digital experiences, service, and pricing will achieve market share gains**
- The concept of “beating the market” has given way to a client **focus on financial planning, asset allocation, tax efficiency, and low-cost investing**
- Clients view robo-advice as a credible investment product, but investors of all ages will place their long-term trust in firms that offer **a combination of people and digital experiences**

Growth



- Independent **Registered Investment Advisors (RIAs)** will **continue to grow faster than the industry overall** due to an acceleration of brokers turning independent and affluent consumers' expectations for transparency and a fiduciary-standard experience
- Though active management will still gather flows in certain asset classes, **market cap and fundamental indexing will capture the majority of client asset flows**
- **Long-term growth in retail investor trading volumes will continue to be modest** and likely coupled with strategic pricing pressure

Competition



- **Fiduciary-standard advice, fee transparency, and increasingly lower advisory fees** will become “cost of entry” and represent an increasing challenge to traditional brokerage firms' growth and retention of their top brokers
- **Scale will play an increasingly large role** in determining the “winners,” as costs related to cybersecurity, compliance, and regulatory oversight challenge the operational efficiency of sub-scale firms
- Although brand matters, **brand loyalty won't ensure retention** as consumers are more willing than ever to change providers in search of lower cost, greater transparency, and more objectivity

Pricing



- Higher profit margins and scale-driven operational efficiency will make **competition for self-directed investors and RIA custody services** more intense
- As a result of corporate fiduciary risks, 401(k) plan sponsors will grow ever more **fee conscious** while their paternalistic drive will ensure they look for ways to deliver more **personalized advice** to their employees

In light of these views, we have taken steps to position Schwab for the future.



Traditional expectations of price/quality trade-offs are breaking down all across our economy. Firms offering world-class **relationships, digital experiences, service, and pricing** will achieve market share gains

The concept of “beating the market” has given way to a client **focus on financial planning, asset allocation, tax efficiency, and low-cost investing**

Clients view robo-advice as a credible investment product, but investors of all ages will place their long-term trust in firms that offer a **combination of people and digital experiences**

Client-Facing Labor Equivalents



+8%
vs. 2017



200K+
Financial Plans

Digital Advisory Solutions



300K
Accounts



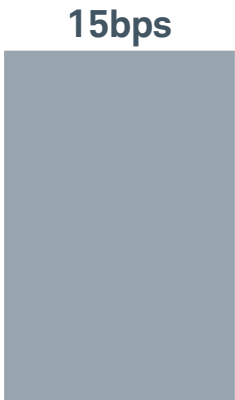
\$33B
AUM

Digital Investments

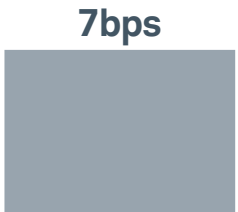


+19%
vs. 2017

Schwab ETF and Index Fund Pricing¹



2013



2018

Live Client Interactions (Phone, Chat, and Branch)



25M+

Positioning Schwab for the future...



RIAs will continue to grow faster than the industry overall due to an acceleration of brokers turning independent and affluent consumers' expectations for transparency and a fiduciary-standard experience

Though active management will still gather flows in certain asset classes, market cap and fundamental indexing will capture the majority of client asset flows

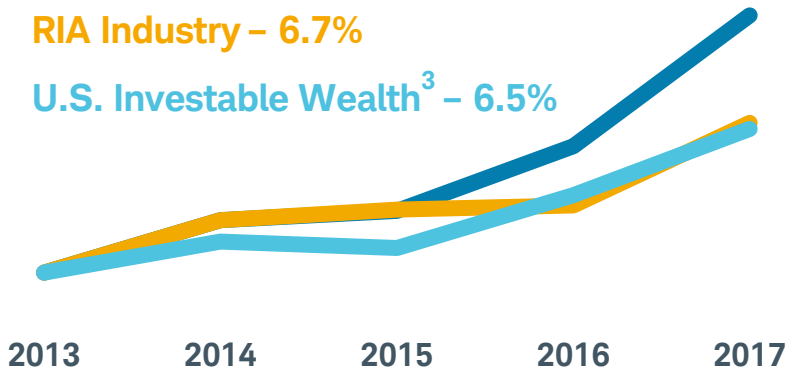
Long-term growth in retail investor trading volumes will continue to be modest and likely coupled with strategic pricing pressure

Asset Growth and 4-year CAGR¹

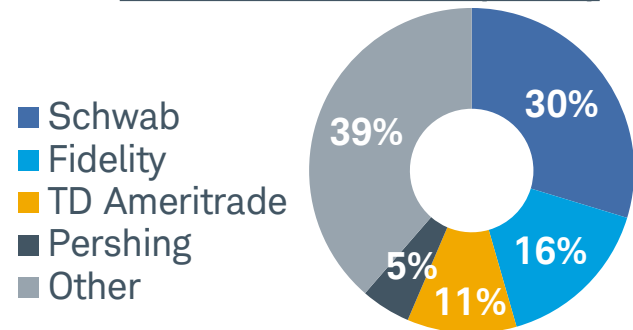
Schwab ASI² – 10.9%

RIA Industry – 6.7%

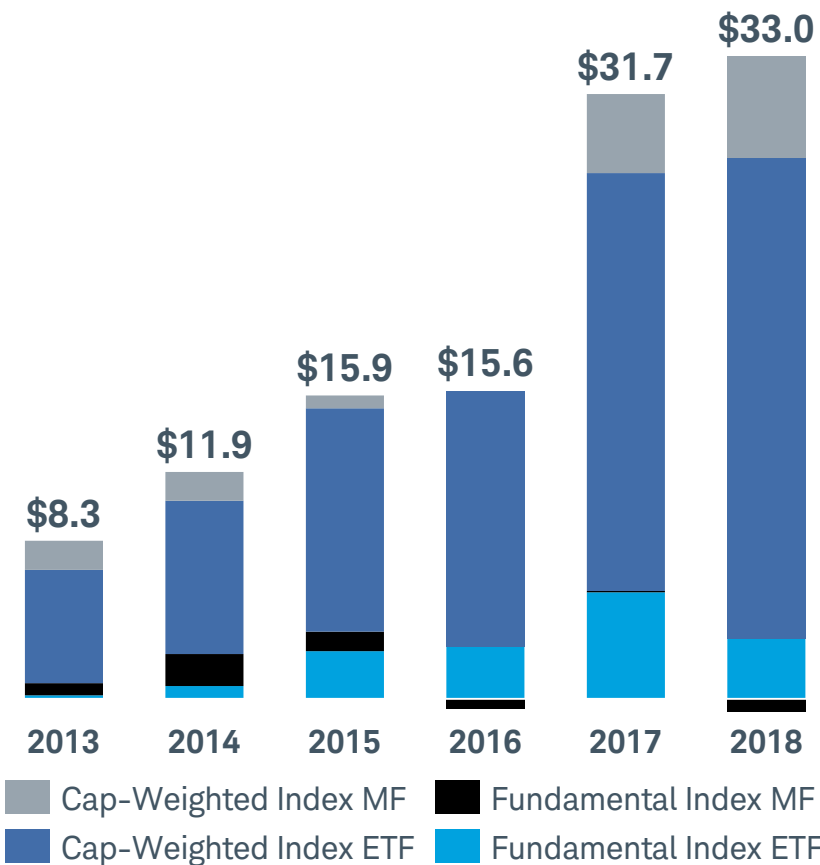
U.S. Investable Wealth³ – 6.5%



RIA Market Share (2017)



Schwab Index Product Net Flows (\$B)

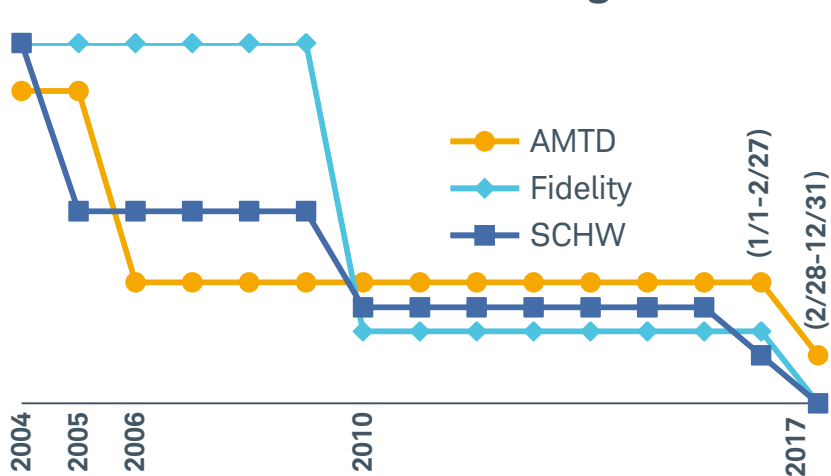


Industry Trades per Account 2008-2018

1% CAGR

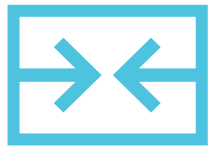
(SCHW & AMTD)

Commission Pricing



Note: From 2004-2006, AMTD's commission rate was a range of \$10.99-\$17.95. From 2004-2010, Fidelity's commission rate was a range of \$8-\$19.95. High-end of ranges are displayed.

Positioning Schwab for the future...



Competition

Fiduciary-standard advice, fee transparency, and increasingly lower advisory fees will become “cost of entry” and represent an increasing challenge to traditional brokerage firms’ growth and retention of their top brokers

AS Advisors In Transition (AIT) Teams



~1,900
since 2008

Typical Estimated Advisor Payouts

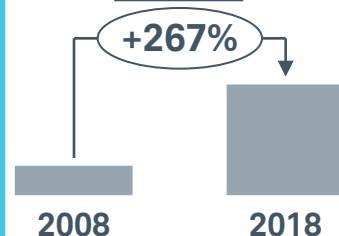
Wirehouse

40%

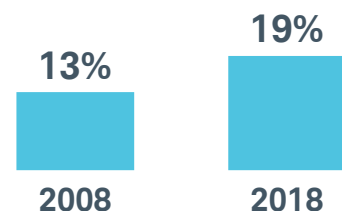
Independent

RIA 60%

Retail Advisory Assets

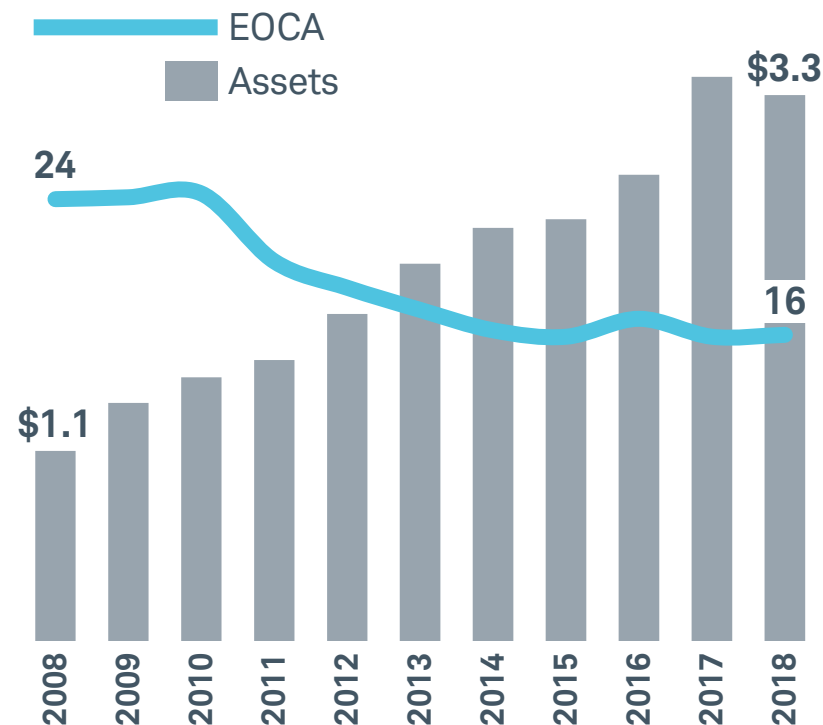


Advice Assets as a % of Total Retail Assets



Scale will play an increasingly large role in determining the “winners,” as costs related to cybersecurity, compliance, and regulatory oversight challenge the operational efficiency of sub-scale firms

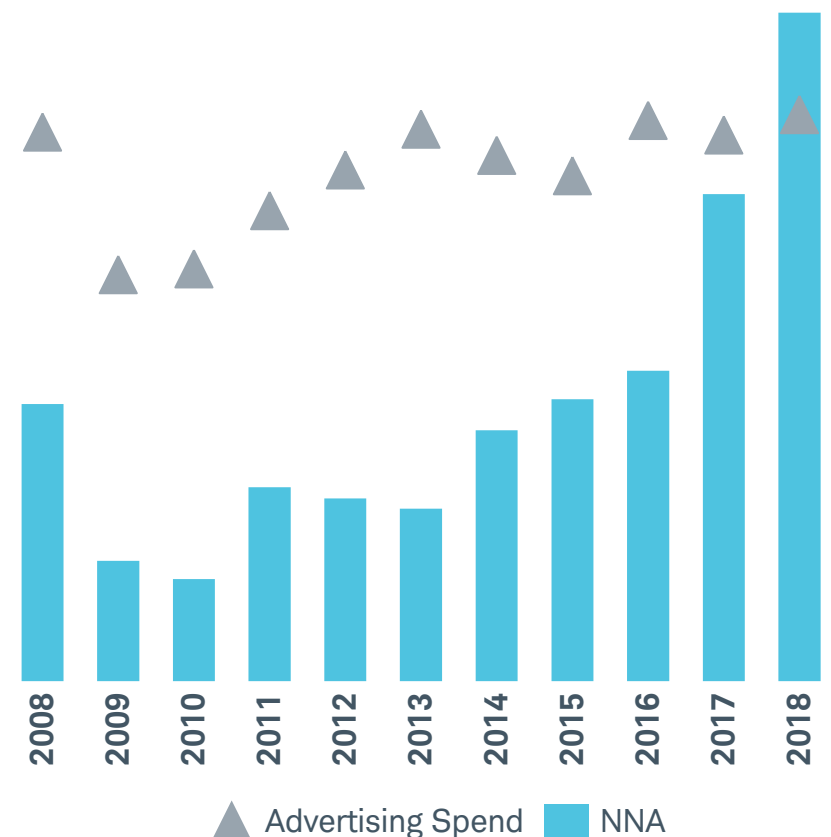
EOCA¹ (bps) and Total Client Assets (\$T)



Significant Investments in: Cybersecurity, Business Process Transformation, Digital, Application Modernization, Regulatory

Although brand matters, brand loyalty won't ensure retention as consumers are more willing than ever to change providers in search of lower cost, greater transparency, and more objectivity

Retail NNA (\$B) and Advertising Spend (\$M)



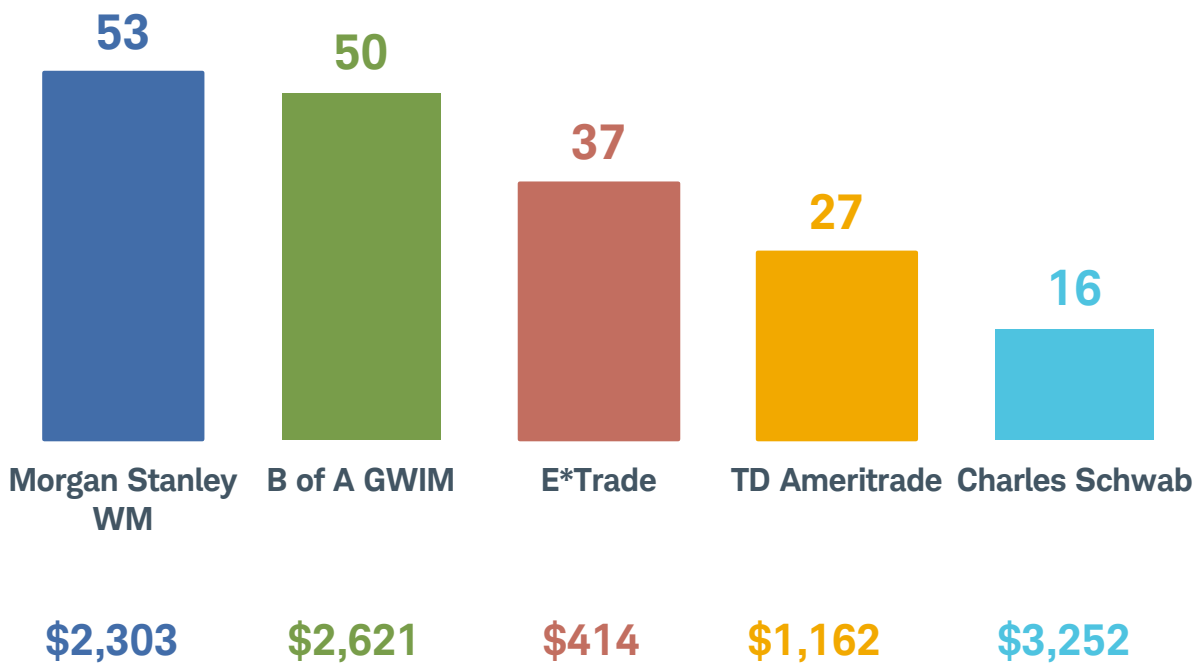
Positioning Schwab for the future...



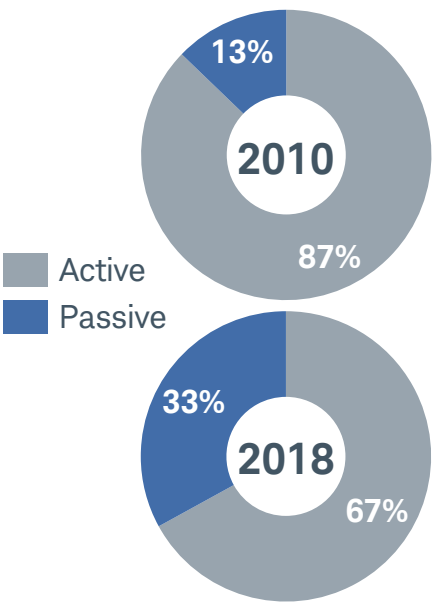
Higher profit margins and scale-driven operational efficiency will make **competition for self-directed investors and RIA custody services** more intense

As a result of corporate fiduciary risks, 401(k) plan sponsors will grow ever more **fee conscious** while their paternalistic drive will ensure they look for ways to deliver more **personalized advice** to their employees

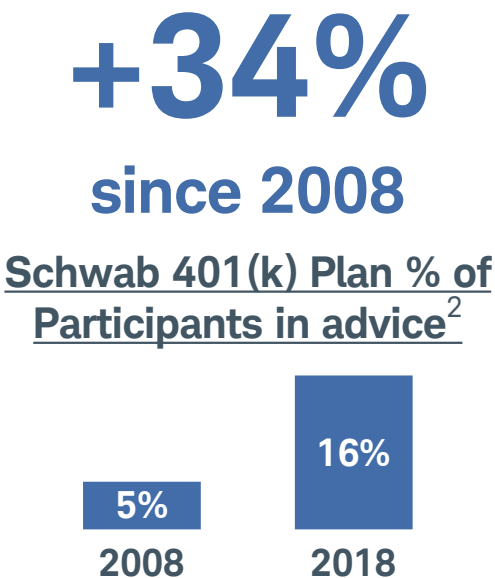
2018 EOCA (bps) and Client Assets (\$B)¹



Schwab 401(k) Plans Asset Allocation



Schwab 401(k) Plans Offering Advice

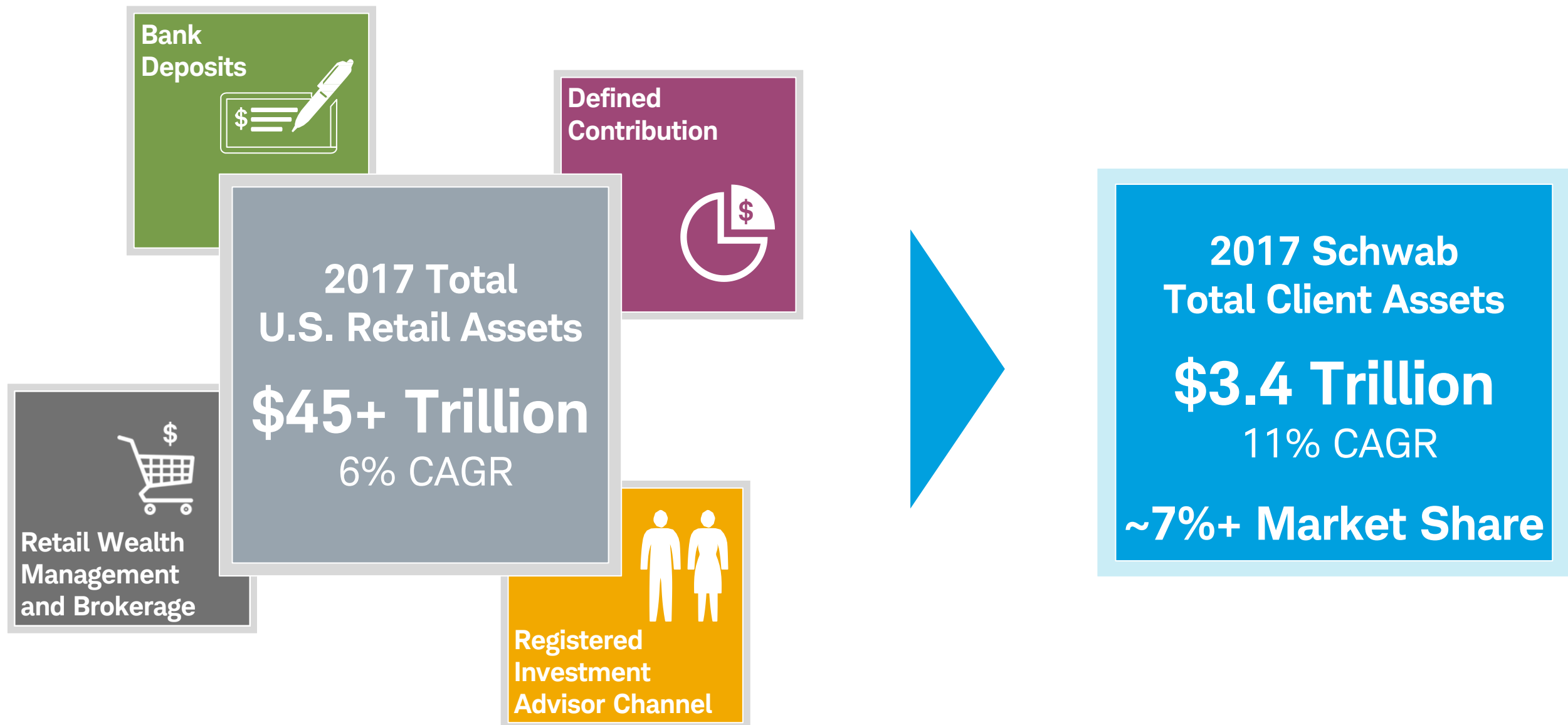


Ranked “**Highest in Group Retirement Satisfaction** among Large Plan Providers” by J.D. Power³

Named the **Most Trusted Provider in the Industry** by the National Association of Retirement Plan Participants for the second year in a row³

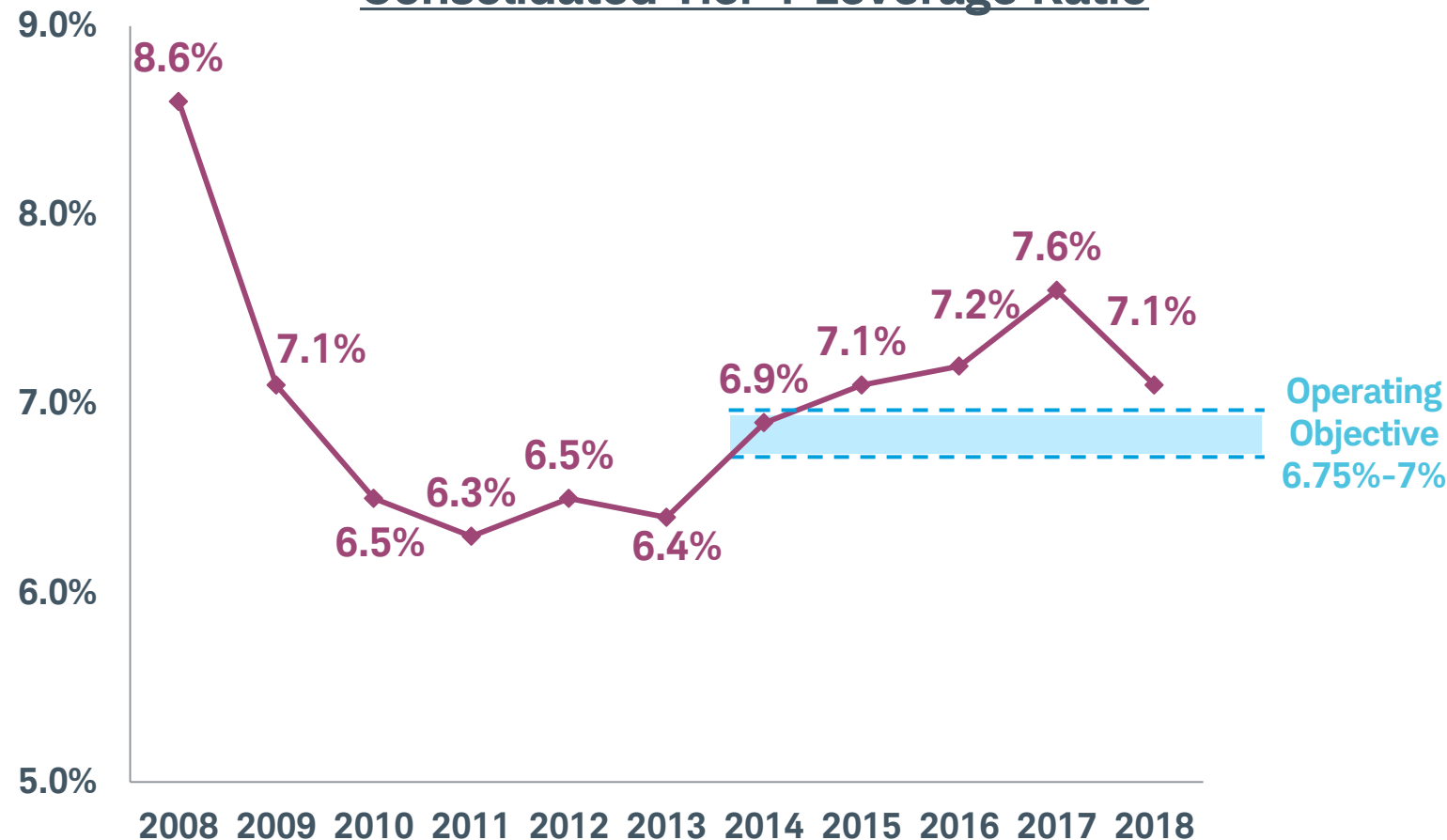
Received the **most Best-in-Class** awards among plan providers rated in the 2018 PLANSPONSOR[®] DC Survey³

There is plenty of opportunity to leverage our strengths to fuel our “asset gathering machine”...



...and our story is now evolving to include growth plus meaningful capital return.

Consolidated Tier 1 Leverage Ratio



2018 Capital Usage

- Supported \$72 billion in sweep transfers
- Raised the dividend twice to \$0.13, reflecting a ~20% payout ratio
- Completed \$1 billion buyback
- Investments in the business

2019 Capital Considerations

- Remaining sweep transfers
- Dividends (in line with our 20%-30% target payout ratio): raised 4 cents to \$0.17 on 1/30/19
- Buybacks: new Board authorization of up to \$4 billion
- Special/Discretionary Dividends
- Disciplined M&A (consistent with our strategy)
- Investments in the business

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

The next decade looks bright.

- We believe that the Virtuous Cycle, driven by our “**Through Clients’ Eyes**” strategy, has and will continue to **attract assets**, as clients value our “**no trade-offs**” approach
- We remain focused on both **growth and efficiency** to keep us in a **competitively-advantaged position** well into the future, and with \$45 trillion in U.S. Retail Assets, there is significant opportunity to grow our share
- We are now on course to resume meaningful **capital returns to owners**, a noteworthy complement to our growth trajectory

Appendix

Disclosures:

U.S. Group Retirement Satisfaction Study, J.D. Power, May 2018. Charles Schwab ranks highest in group retirement plan satisfaction in the large plan segment. The 2018 study was based on 9,500 responses from group retirement plan members surveyed between February and March 2018. Your experiences may vary. Visit jdpower.com.

In the PLANSPONSOR[®] 2018 Defined Contribution Survey, Schwab Retirement Plan Services received 74 Best in Class awards, including the most in the mega-market category. A total of 23 providers qualified for inclusion in the published results. The study covered six asset-based markets and five broad categories. More information regarding survey results and methodology can be found in PLANSPONSOR 2018 DC Survey (available at plansponsor.com/research).

A Strategic Analysis: Drivers of Engagement and Loyalty, NARPP 2017 Participant Trust Study, Edition v4.0, 2017, and NARPP 2018 Participant Trust Study, Edition v5 2018. The National Association of Retirement Plan Participants (NARPP) is not affiliated with Schwab Retirement Plan Services, Inc.



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Q&A

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Joe Martinetto

Senior Executive Vice President
and Chief Operating Officer

We are focused on three overarching objectives in driving Schwab's digital transformation:



Create a **seamless, multi-channel experience**, removing friction and making Schwab **easy to do business with**

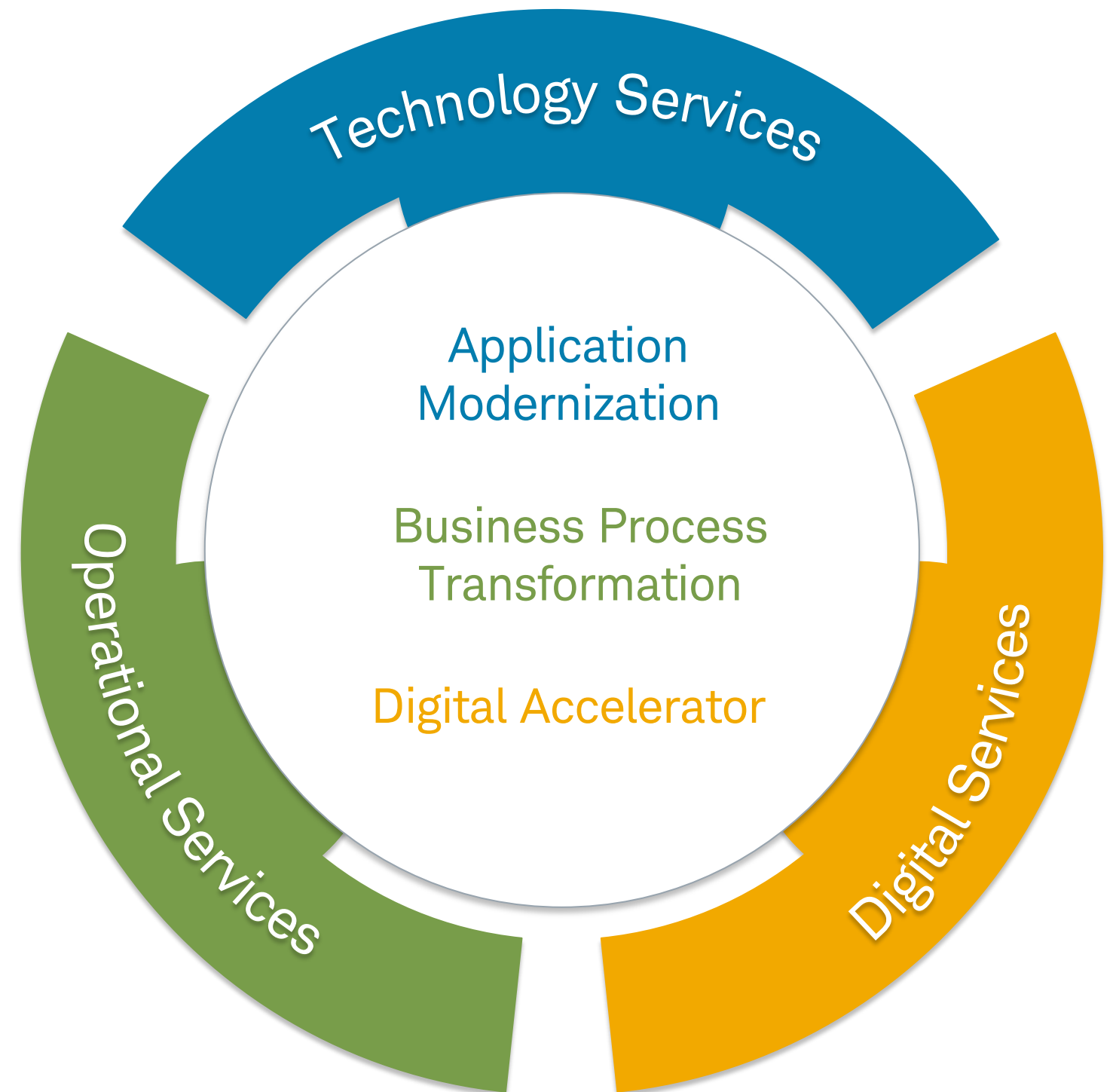
Reduce the cost of serving our clients to allow us to **continue to make disruptive investments**

Drive growth and innovation that **widens our scale advantage** and allows us to reinvest in the business, while also rewarding employees and stockholders

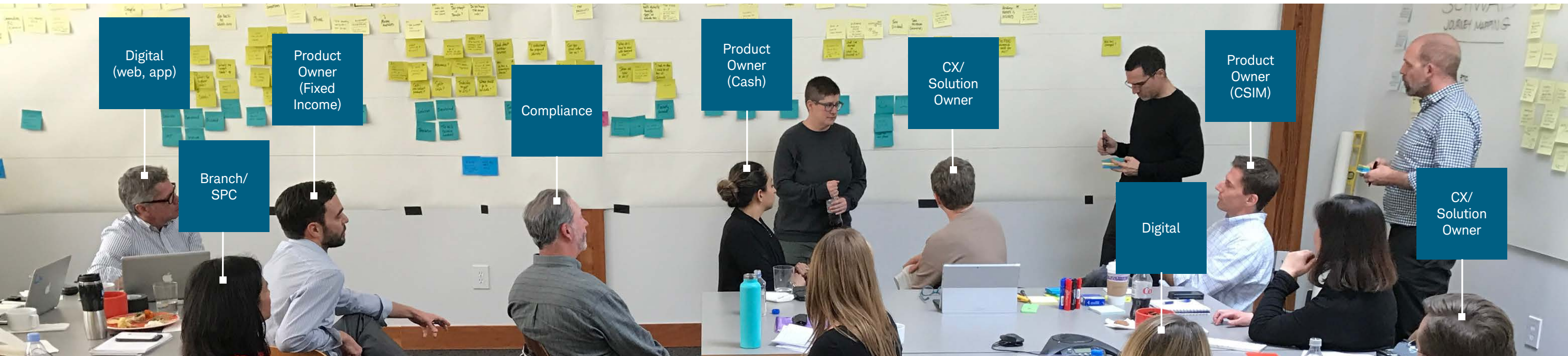
We instituted a cross-enterprise, multi-channel approach in 2018 to make progress against these objectives.

This complex, multi-year commitment to digital transformation is comprised of a collection of initiatives aimed at driving operating leverage and enhancing the client experience.

Three significant investments to this effect have been in application modernization, business process transformation, and accelerating Schwab's digital capabilities.



Across these enterprises, we've implemented new practices to increase our speed and agility.



Leveraging “journeys” and “utilities” to improve client experience and drive scale

End-to-end experience design
Front-to-back, cross-enterprise efficiency

Accelerating progress in key areas to improve our strategic positioning and agility

Talent
Data
API / Web Services

Adopting new ways of working to boost speed-to-market and build more integrated, client-centric experiences

Outcomes driven
Cross-disciplinary dedicated teams
Design-driven iterative approach

A Closer Look (I/II):

Application Modernization (AppMod)

Central to our digital transformation, we're relentlessly pursuing simplification and standardization through:

- Modernized Hosting Platforms and adopting private and public cloud capabilities
- Reduced architectural complexity and modernizing where appropriate with Application Construction
- Untethering applications from the legacy mainframe environment



A Closer Look (II/II): Application Modernization (AppMod)



Data Center

Progress:

- Data Center strategy work completed leading to land deal and design of company owned and operated Data Center in Texas
- New Data Center will be completely modern, leveraging a modular design, accommodating significantly greater power needs per square foot, and run with full automation



Hosting Platforms

- New application hosting environment established utilizing private cloud technologies
- Signed public cloud agreement to create the flexibility to deploy application workloads and take advantage of scalability, cost, and security benefits of public cloud



Application Construction

- Program successfully staffed and construction ramped
- Development sub-programs achieved 2018 milestones, including production deployment of MVP functionality
- Architectural standards completed and published

What's next:

- Construction of Data Center expected to be complete in 3Q19
- Preparation for application migration underway and will take place for 2-3 years after construction is complete
- Install hosting environment in public cloud once security and operation planning work is complete
- Establish public cloud minimum viable product (MVP) and continue scaling capabilities
- Continue scaling development, including adoption of architectural standards and Agile capabilities

A Closer Look: Business Process Transformation (BPT)



Our investments in BPT help teams enhance service and drive operating leverage.



With firm-level benefit:

From tools and software...

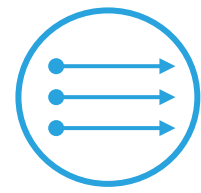
- A modern, unified workflow platform
- Automated document processing
- Productivity management tools
- Digital utilities and services

...to ways of working

- Lean process engineering
- Process automation
- Agile at scale
- Innovation labs
- Cross-enterprise 'Big Room Planning'

- Evolution of TOA processes through BPT has allowed Schwab to support significant volume growth while reducing TOA processing staff
 - Incoming TOA volume grew ~40% from 2016 to 2018 (while outgoing volume remained steady)
 - TOA processing staff declined by ~3% in the same period
- We will maintain near-flat Operational Services expenses through 2020 (while serving our growing client base) with more straight-through-processing

A Closer Look: Digital Accelerator



Journey Accelerator

Objective

Design and develop new multi-step client experiences (“journeys”) in a way that integrates enhancements in cross-enterprise capabilities (“utilities”) in dedicated, empowered, and cross-functional teams.

Initial Journeys

- Retail Onboarding and New Client Experience
- Retirement Experience
- Advisor Onboarding Experience



Innovation Accelerator

Objective

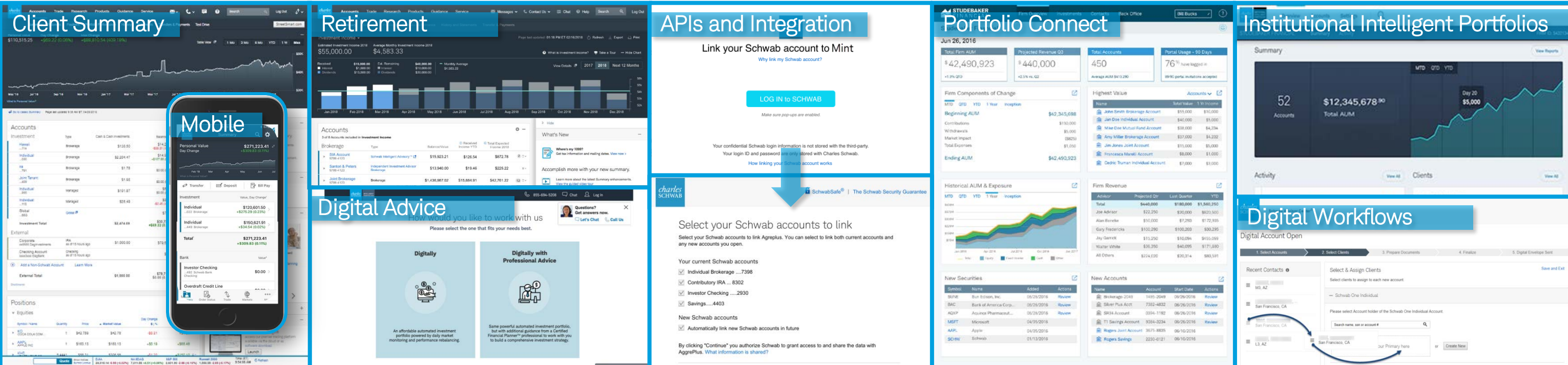
Improve today’s client experience and generate meaningful longer-term cost or revenue opportunities via an insights team, and internal and external innovation labs.

Initial Labs

- Automation and self-service capabilities
- Artificial Intelligence (AI)-driven technology
- Retail application of APIs

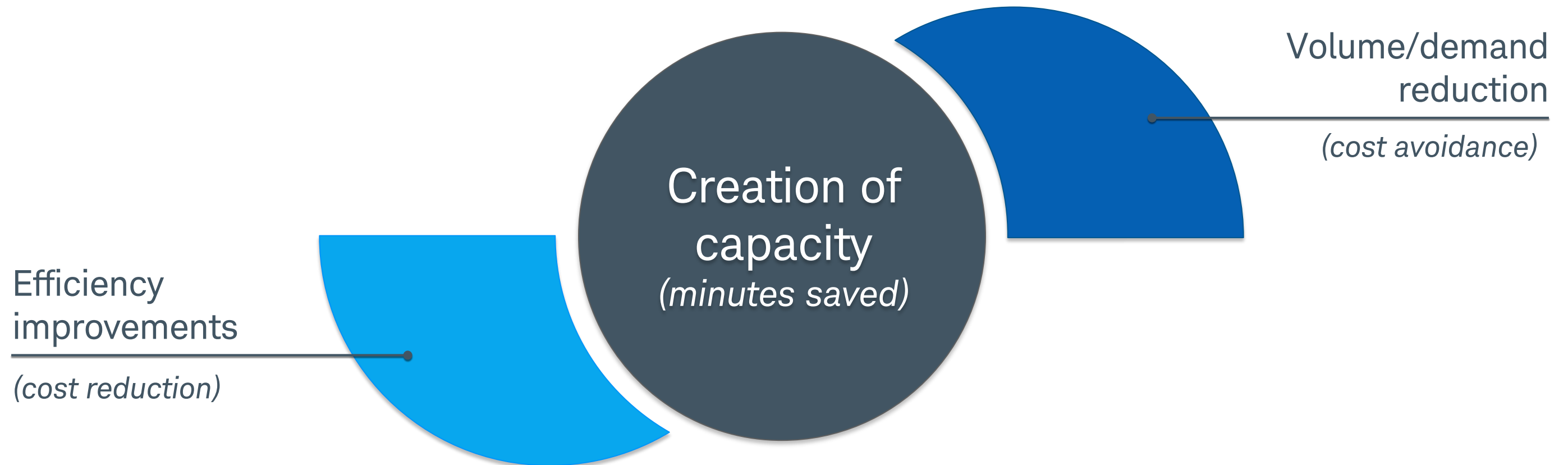


And our digital progress in 2018 wasn't limited to just AppMod, BPT, and the Digital Accelerator:

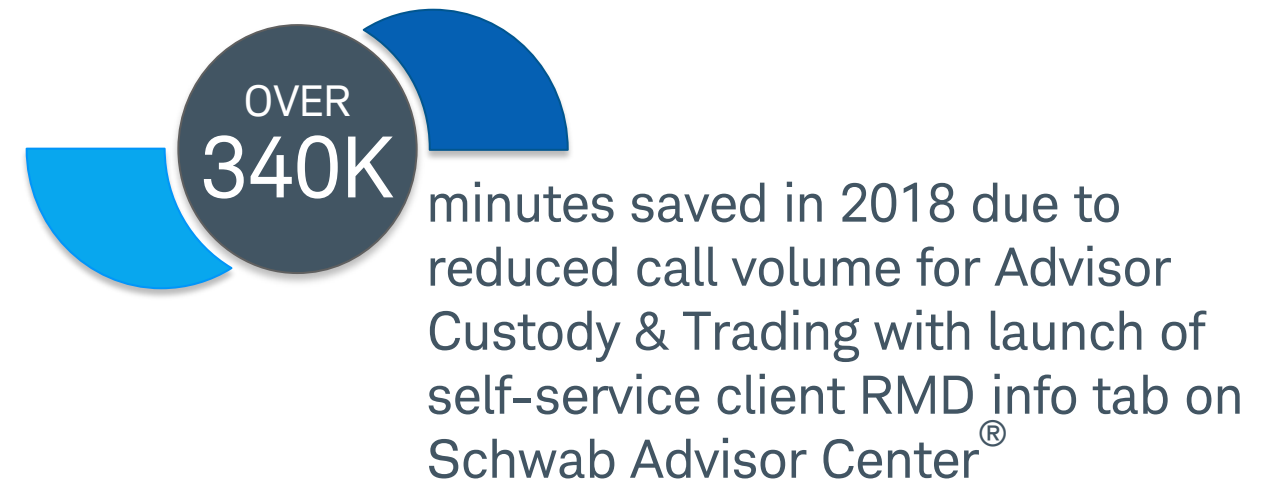
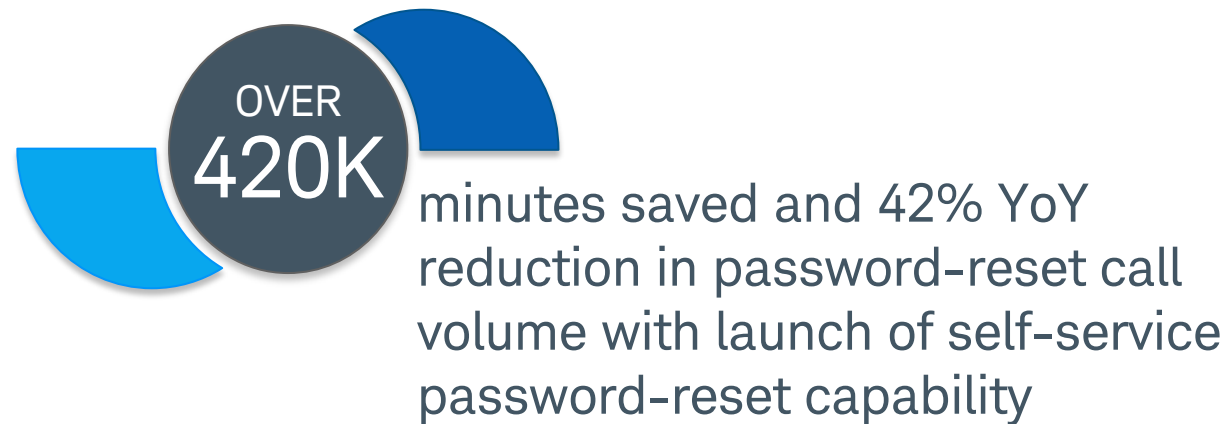


- ▶ **Enhanced Client Summary page**
Rolled out Client Summary to ~5M clients and began income reporting and projection pilot
- ▶ **Released several mobile enhancements**
Drove mobile engagement to where over 40% of monthly app users are mobile-only
- ▶ **Enhanced Institutional Intelligent Portfolios®**
Now includes mutual funds, customization options, and digital account open features
- ▶ **Launched API-enabled travel notices**
Saves ~24 work hours/day for contact center staff with over 120,000 operational cases avoided since August launch
- ▶ **Began rollout of Schwab Advisor Portfolio Connect™**
Early Access firms enrolled and providing great feedback in advance of general availability
- ▶ **Expanded OASIS onboarding platform**
Over 80% of retail account opens are now initiated digitally, trending upward
- ▶ **Launched digital Balance Letters**
Eliminates manual processing, reducing service time from 2-5 days to 5 seconds; ~32,000 generated
- ▶ **Introduced AS Digital Account Open**
Projected to reduce internal cost for opening a new account by over 85%
- ▶ **Launched online token management**
More than 24,000 calls and operational cases avoided to date

In 2019, one focus of our digital transformation will be to build scale and create operating leverage.



And we've made progress on creating capacity through these levers in the past year including:



Through keen focus and continued investment, we will accelerate Schwab's digital transformation through 2019.



Create a **seamless, multi-channel experience**, removing friction and making Schwab **easy to do business with**

Reduce the cost of serving our clients to allow us to **continue to make disruptive investments**

Drive growth and innovation that **widens our scale advantage** and allows us to reinvest in the business, while also rewarding employees and stockholders



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Q&A



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Break

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Jonathan Craig

Senior Executive Vice President

We are driving more new relationships to Schwab than ever before.

3-year CAGR

**New-to-Retail
Households
(NTR HHs)**



24%

**New Advisor
Relationships**



11%

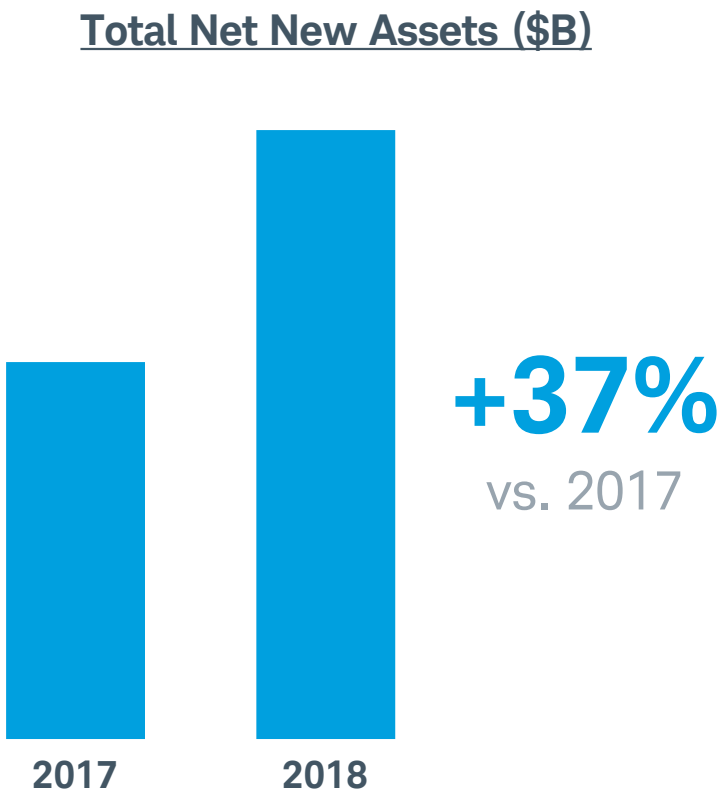
**New Employer
Relationships**



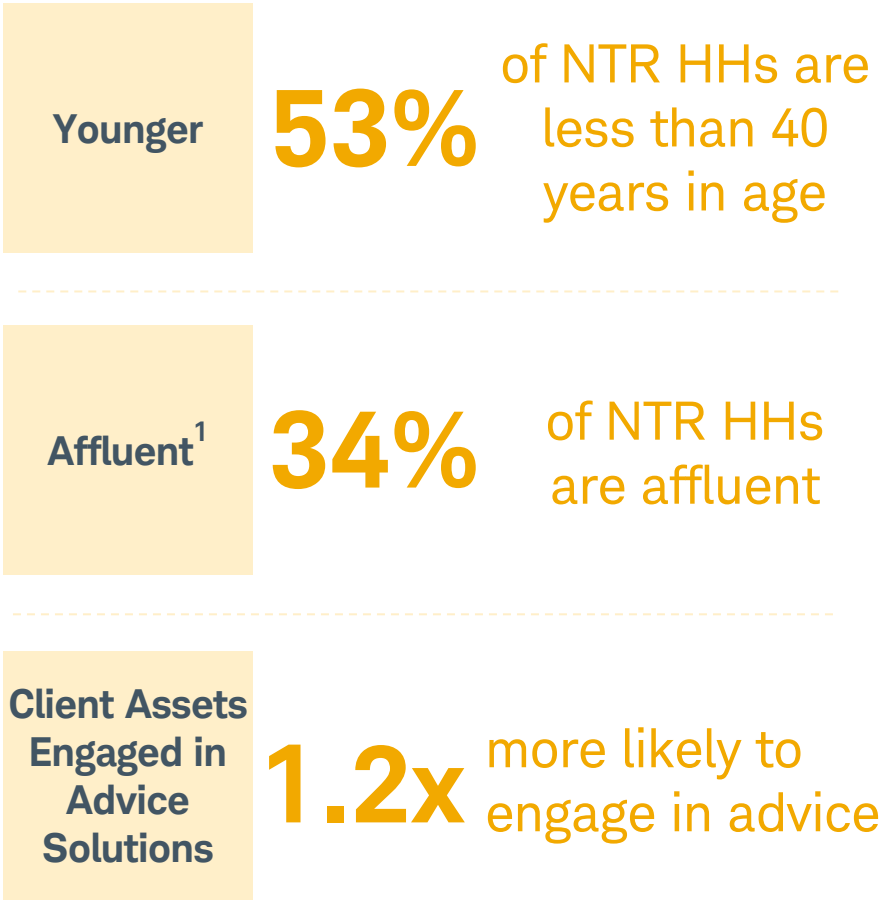
13%

Retail delivered record results in 2018.

Record-breaking asset gathering led to record client asset levels



We've attracted younger, affluent clients who want advice solutions



We continued to receive industry recognition²

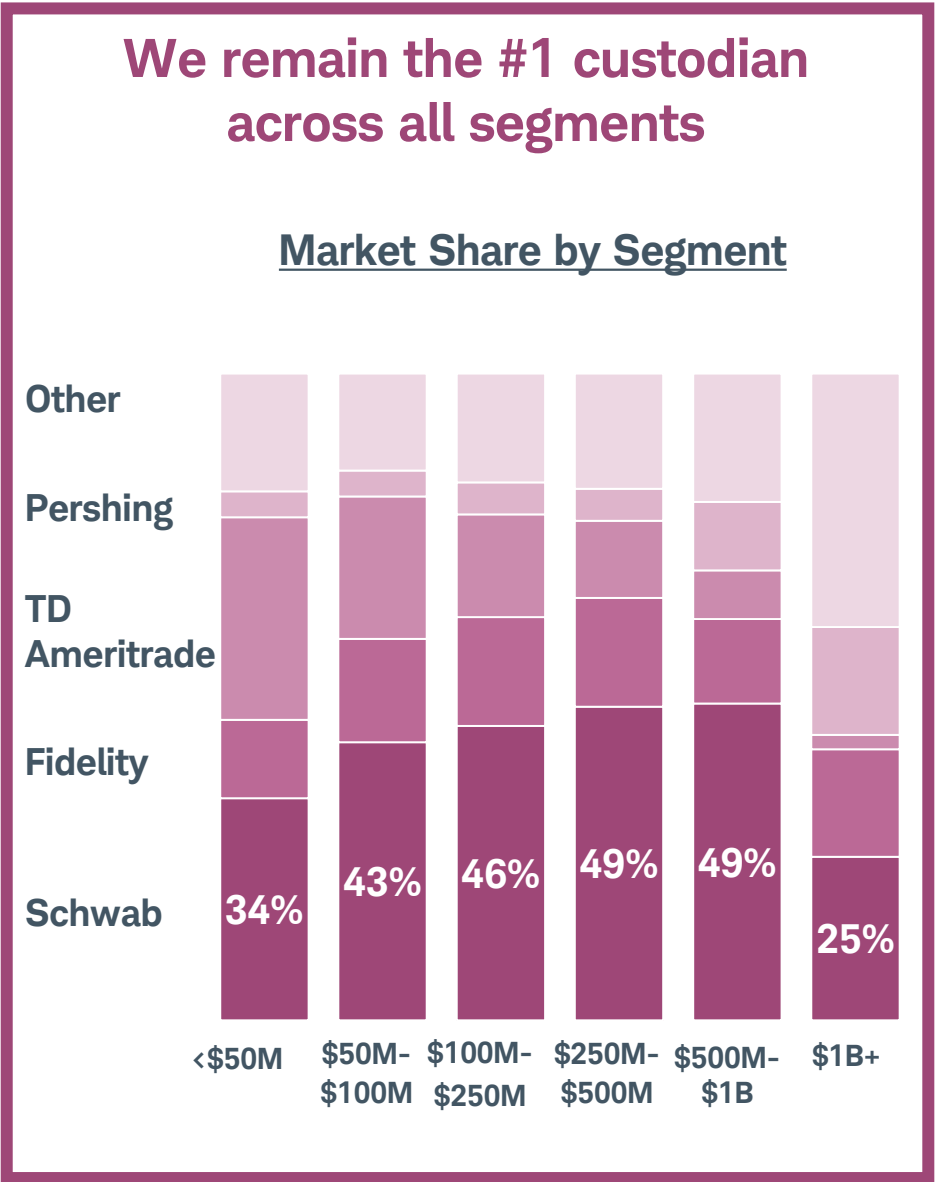
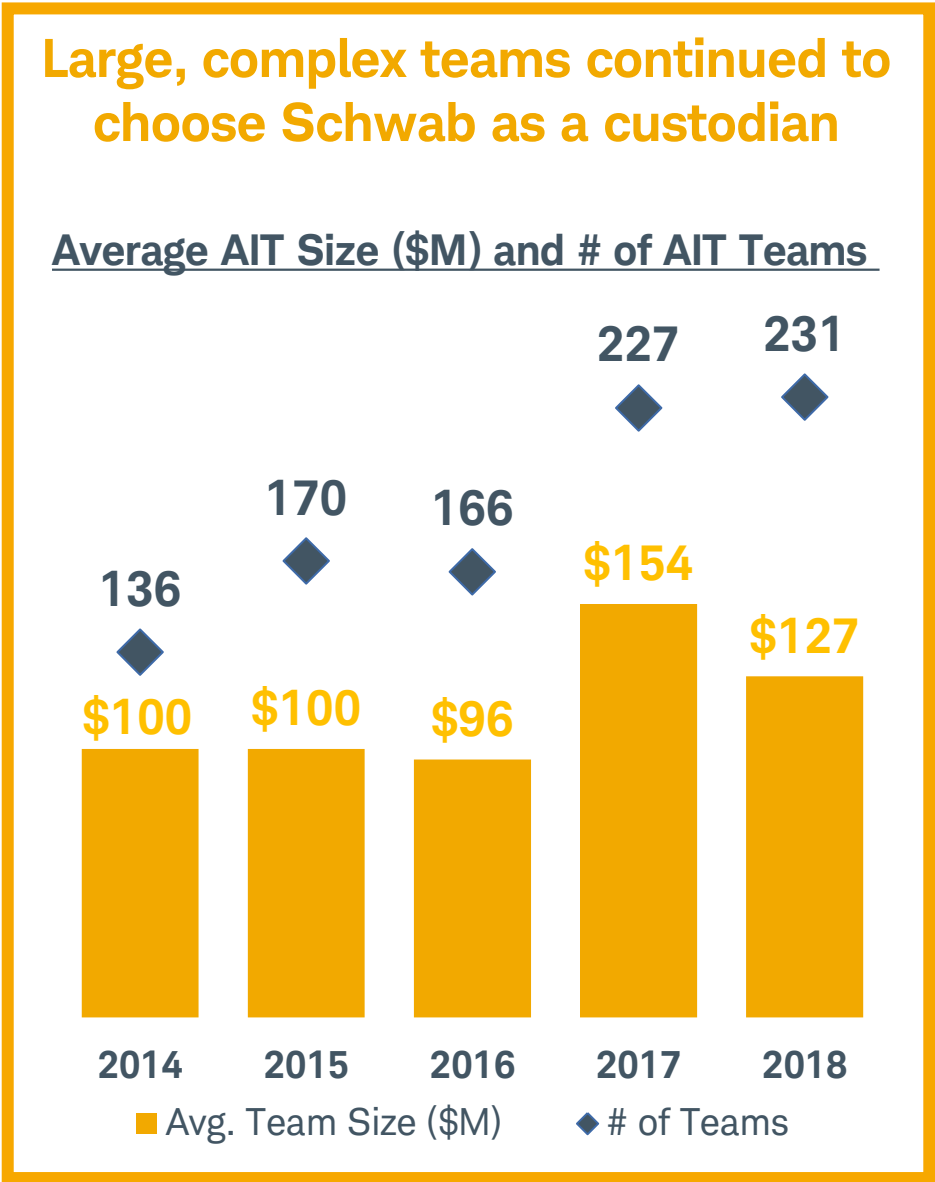
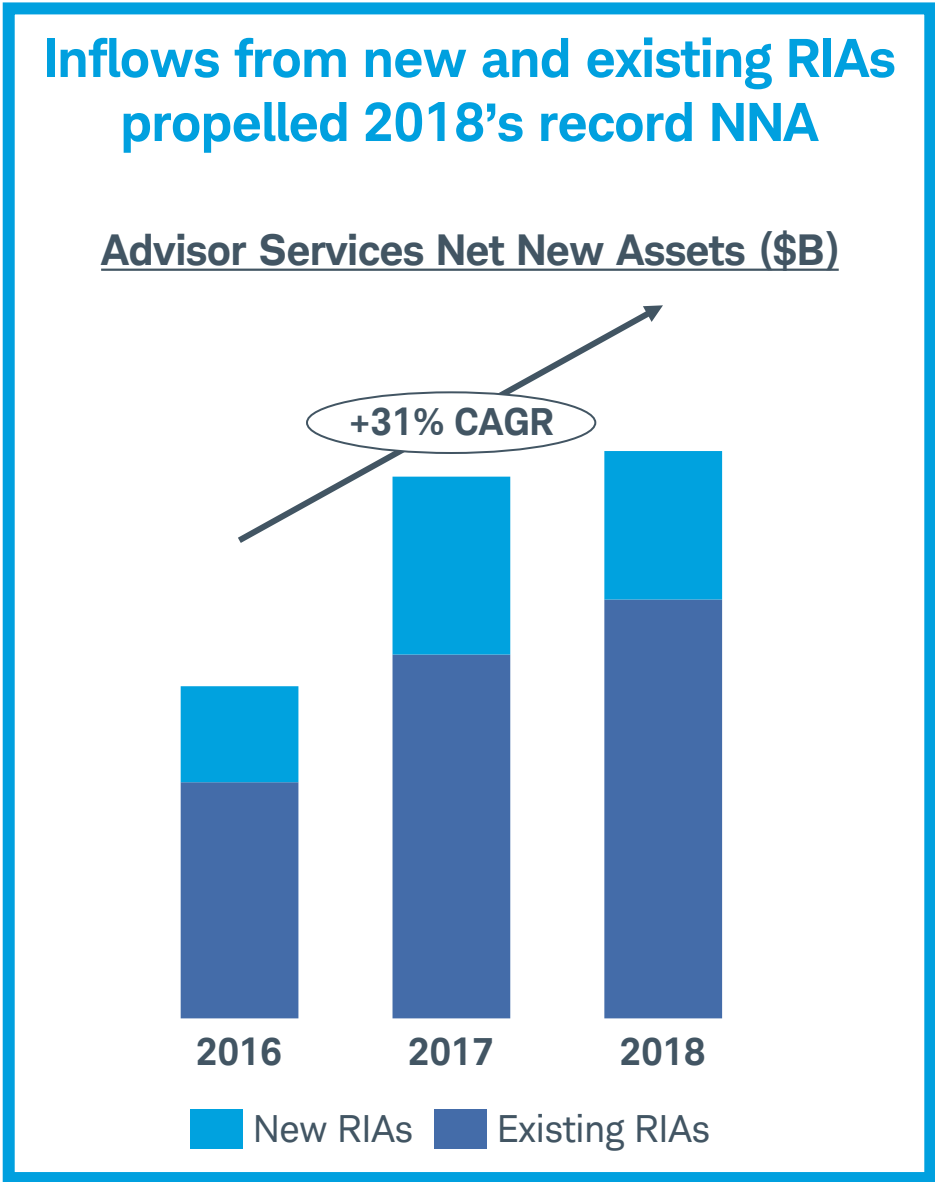


**#1 in Investor Satisfaction
Among Full Service Brokerage
Firms, 3 Years in a Row**

Other Industry Accolades



Advisor Services continues to lead the RIA custody industry with \$1.6T in assets and 30% market share.



Continued success requires us to not only execute our strategies but also progress on three imperatives.



Service

**Deliver exceptional
service every time**



Simplicity

**Be remarkably simple and
easy to do business with**



Scale

**Continue to add to our
scale advantage**

We have a huge opportunity in client contact centers to deliver on Service, Simplicity, and Scale.

Contact centers represent a significant number of client interactions and firm investment¹

7
Service
Channels

25M+
Annual
Assisted
Interactions

4K+
Contact
Center Staff

15%
Annual Growth
in Contact
Center Cost²

We have a huge opportunity to drive change

~27% of calls are **highly self-serviceable** (e.g., password resets and account opening)

~25% of calls result in a **transfer**

~55% of those who called attempted to previously solve for problem **digitally**

A multi-year cross-enterprise effort to capture this opportunity is underway.

Enterprises in Scope

- Investor Services
- Advisor Services
- Digital Services
- Operations

Areas of Focus



End-to-End Service Experience



Operating Models



Technology and Infrastructure



Analytics, Reporting, and Metrics



Talent

We expect this effort to drive meaningful improvements to the business starting this year

In summary, we have had strong results and we are focused on strengthening our position in 2019.

**We continued to
see strong
momentum in
2018**

**We recognize the
importance of
Service, Simplicity,
and Scale to
future growth**

**We are making
thoughtful
investments to
strengthen
our position**

Appendix

Disclosures:

Charles Schwab received the highest numerical score in the J.D. Power 2016–2018 Full Service Investor Satisfaction Studies. 2018 study based on 4,419 total responses from 19 firms measuring opinions of investors who used full service investment institutions, surveyed December 2017. Your experiences may vary. Visit jdpower.com/awards.

From Investor's Business Daily, January 29, 2018, © 2018 Investor's Business Daily Inc. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited. Results based on an Investor's Business Daily ("IBD") and TechnoMetrica survey of 5,946 visitors to the IBD website between July–August 2017 and September–November 2017. Those individuals were asked to name and rate their primary online broker. Limiting data analysis only to firms that were cited by 125 or more participants, eight online brokers were ranked based on Customer Experience Index scores for thirteen separate attributes. For further information on how the ratings were calculated, see IBD's Criteria and Methodology.

"2018 Online Broker Survey," published March 24, 2018. *Barron's* is a trademark of Dow Jones & Co., L.P. All rights reserved. Reprinted with permission of *Barron's*. Schwab received 4 out of 5 stars for the year 2018. Barron's evaluated 19 firms in the following categories of service: Trading Experience and Technology; Usability; Mobile; Range of Offerings; Research Amenities; Portfolio Analysis and Reports; Customer Service, Education, and Security; and Costs.

StockBrokers.com: "2018 Online Broker Review," published February 20, 2018. Participation in the review is voluntary; a total of 13 online brokers submitted themselves for ranking for the 2018 review. The Online Broker Review assesses participating online brokers on 292 variables across 10 categories: Commissions & Fees, Offering of Investments, Platforms & Tools, Research, Customer Service, Mobile Trading, Ease-of-Use, Education, Order Execution, and Banking. All categories, with the exception of "Banking" are factored in to the overall ranking. Star ratings are out of five possible stars and are based on a calculation that combines the variable assessment with an opinion score from 1–10 with 10 "very good" in [StockBrokers.com's](http://StockBrokers.com) opinion. Best in Class are online brokers who have placed within the Top 5 for a category. Industry Awards are awarded based on the opinions of StockBrokers.com. Read [our 2018 Online Broker Review](#). For further information on how the ratings were calculated, see StockBrokers.com's "[How We Test](#)"

Business Panel

**Jonathan
Craig**
Senior Executive
Vice President

Terri Kallsen
Executive Vice
President
Investor Services

Bernie Clark
Executive Vice
President
Advisor Services

Investor Services is focused on driving growth in 2019.

Simplify our offer and enhance our planning experience



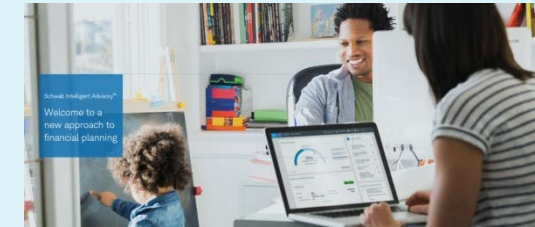
Simplify our Managed Investing spectrum and modernize the delivery of financial planning

Simplify and streamline tools for our reps and service teams



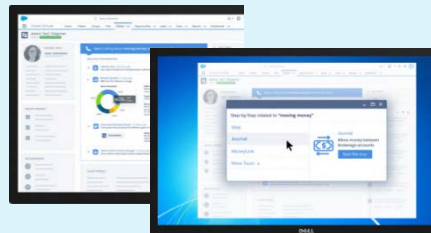
Continue to enhance desktop tools to make it easier for employees to deliver for clients

Develop innovative solutions to better address holistic financial needs



Launch retirement income, banking, B2B and cross-generational wealth solutions

Drive scale and simplicity in our service model



Transform our service strategy and drive scale through service model enhancements

Simplify the end-to-end client experience



Continue to invest in digital to enhance ease of doing business

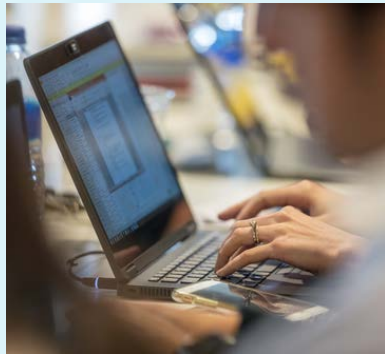
Innovate alternative client relationship models



Test and launch new client relationship models to drive increased client engagement

Advisor Services' 2019 priorities build upon our leadership position.

Deliver an Industry-leading Custody Experience



Enhance ease of doing business by digitizing key workflows and making status updates readily available online

Help Our Clients and the Industry Grow



New 1:1 consulting engagements and virtual practice management to reach even more of our growth-oriented clients

Attract and Develop Advisor Talent



Expand programs that attract the next generation and help advisors scale their organizations

Advocate on Behalf of the RIA Industry



Continue educating policymakers and prospective RIA clients on the benefits of the independent model



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Q&A



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Lunch

Winter Business Update

February 5, 2019

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Peter Crawford

Executive Vice President and
Chief Financial Officer

As we reflect on all of the records reached in 2018, we are equally excited about what's ahead.

- Schwab's 2018 results marked many records – in asset gathering, in revenue, in pre-tax profit, in net income, in EPS
- Our 2019 outlook contemplates growth and capital return, even if the macro environment isn't as helpful as 2018
- We are confident in our financial formula through the cycle, and optimistic about the opportunities in front of us

Today we'll discuss:

2018 Results
2019 Outlook
**Our Financial
Formula**

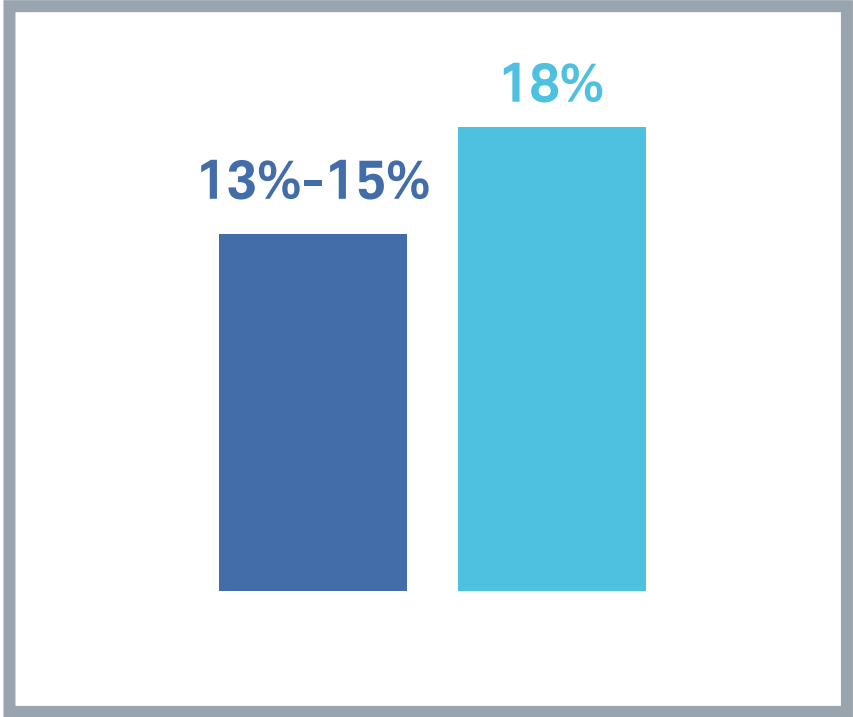
In 2018, the economic environment helped more than we expected – even if it didn’t always feel like it.

	Key Scenario Drivers:	2018 Actual
Market	S&P appreciates 6.5%	S&P down 6%
Short-term Rates	One (June) <u>or</u> three (March, June, and September) Fed rate hikes to either 1.50%-1.75% or 2.00%-2.25%	Four 25bps Fed Funds rate hikes in March, June, September, and December to 2.25%-2.50%
Long-term Rates	Average 10-year Treasury at 2.55% <u>or</u> 2.75%	Average 10-year Treasury at 2.91%
Trading	DARTs up slightly year-over-year	DARTs up 31% year-over-year

With macro factors, record asset gathering, and expense discipline we were able to deliver outstanding results.



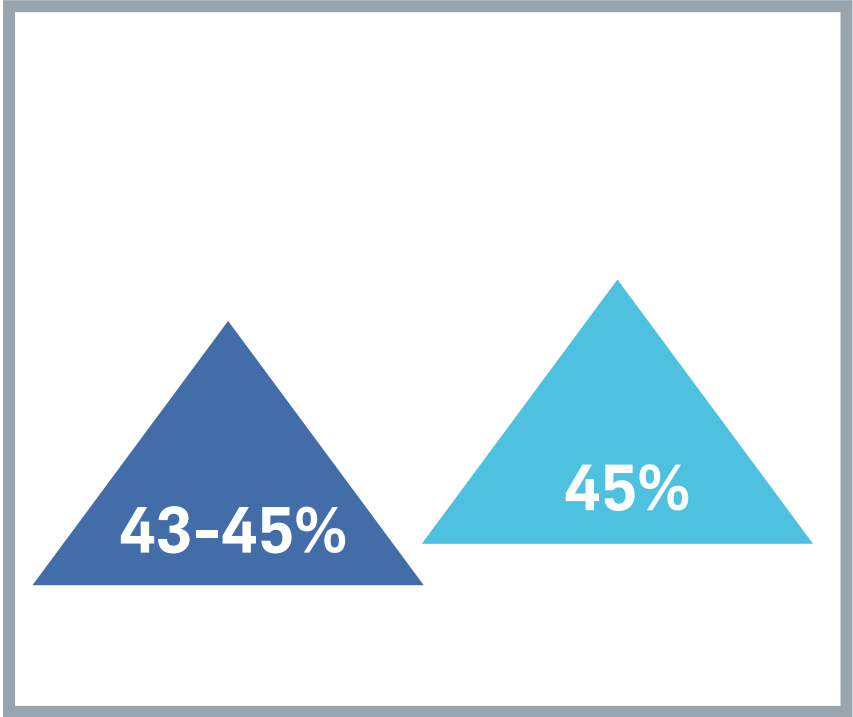
Revenue Growth



Gap between Revenue and Expense Growth



Pre-tax Profit Margin



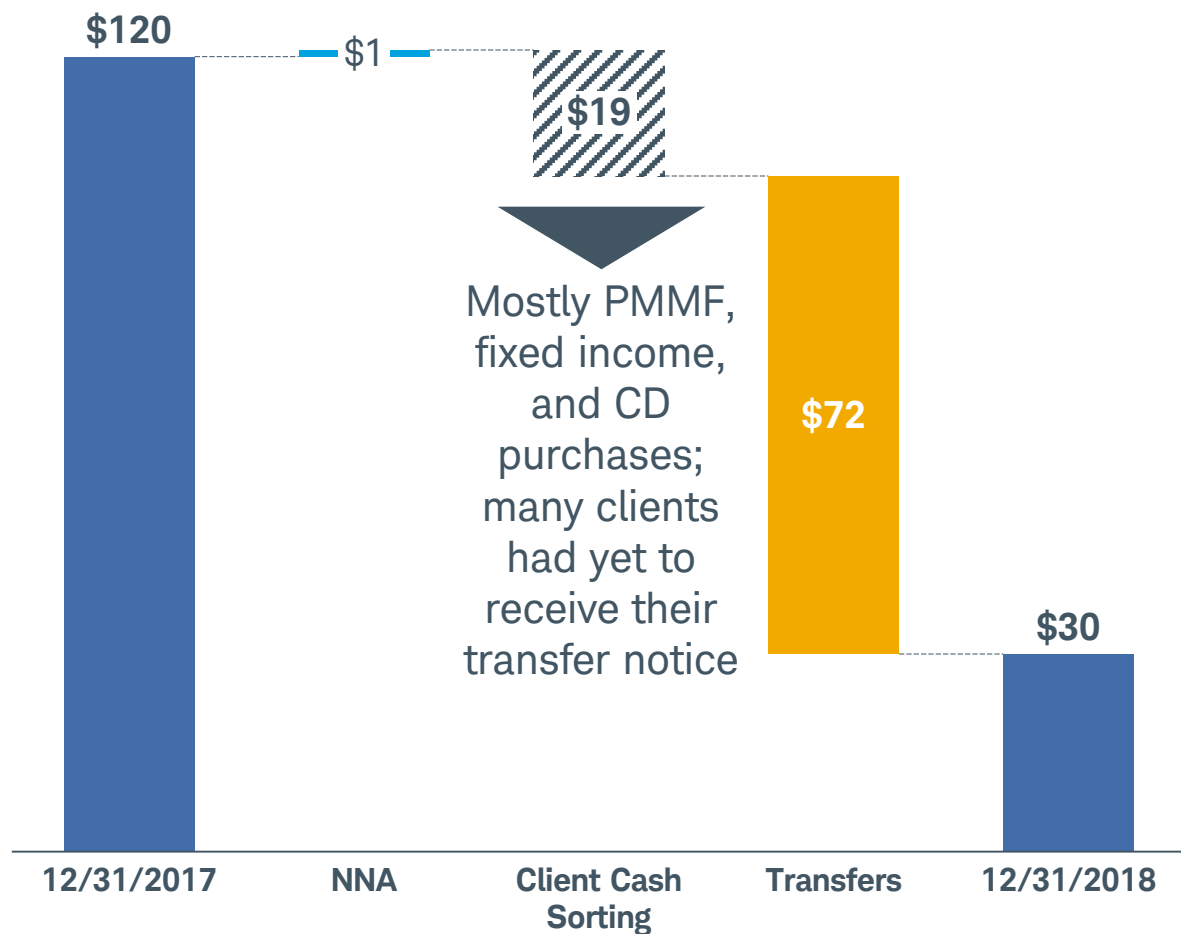
The balance sheet expanded 22%, above our initial expectations of at least 15%.

(\$M, EOP)	4Q17	4Q18*
Total Assets	\$243,274	\$296,482
Bank Deposits	\$169,656	\$231,423
Payables to Brokerage Clients	\$31,243	\$32,726
Short-term Borrowings	\$15,000	\$-
Long-term Debt	\$4,753	\$6,878
Stockholders' Equity	\$18,525	\$20,670
Parent Liquidity	\$4,043	\$4,005
Tier 1 Leverage Ratio	7.6%	7.1%

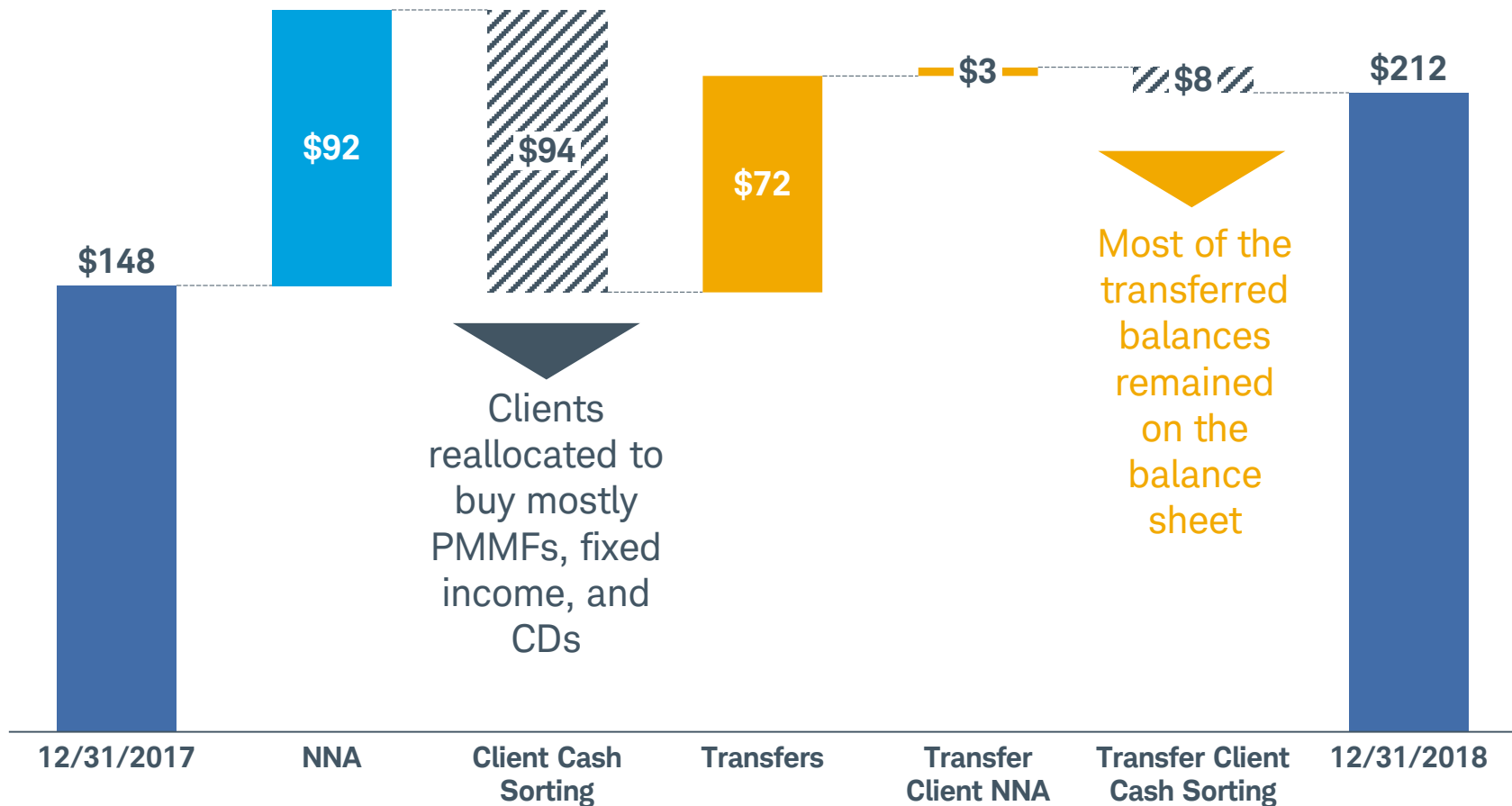
- **Balance sheet growth** was primarily driven by higher sweep cash levels
- We completed nearly **\$5 billion in sweep transfers** from sweep money market funds (SMMFs) in 4Q18, for a total of \$72 billion in 2018
- As of 12/31/18, we have ~**\$30 billion** remaining in SMMFs and expect to transfer around **half** by mid 2019
- We issued **\$1 billion** in debt during 4Q18 for general corporate purposes, including providing liquidity, as we bought back \$1 billion in stock
- As we used capital to support transfers and execute our buyback program, our Tier 1 Leverage Ratio **moved towards our operating objective**

Our clients continue to sort through “invested” vs. “transactional” cash...

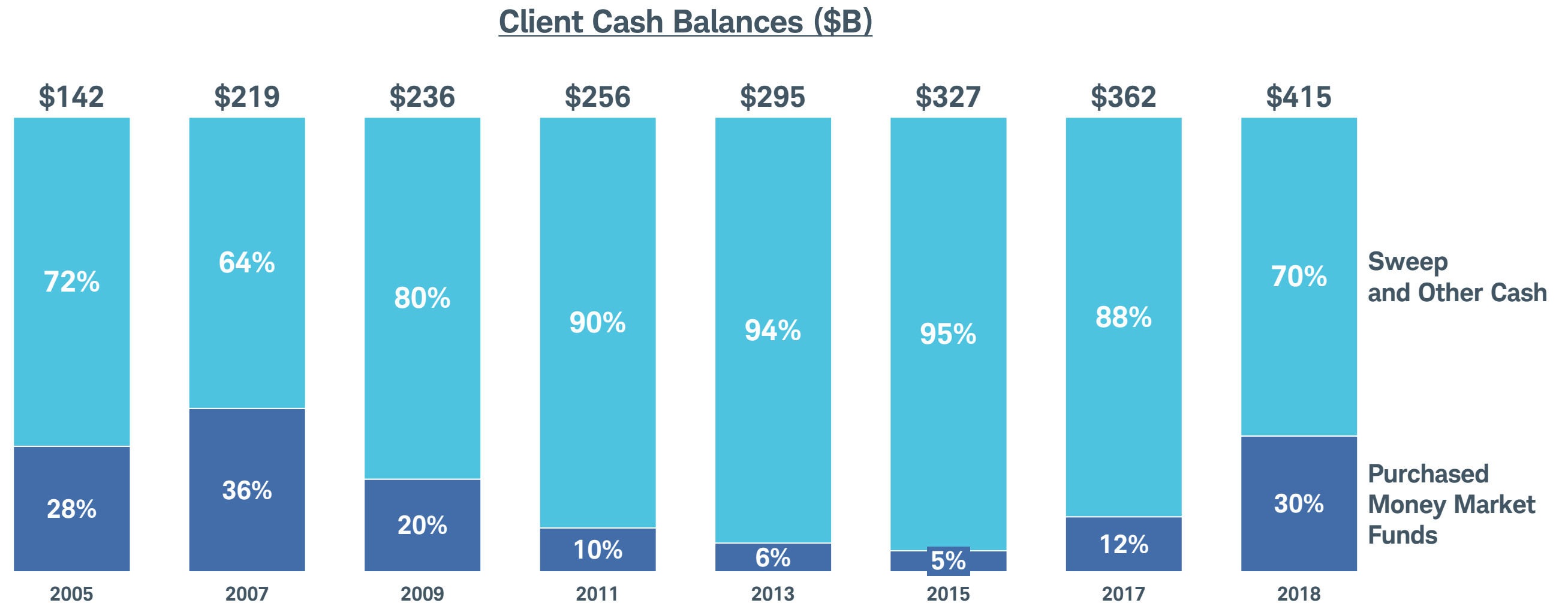
Estimated SMMF Activity (\$B)
2017-2018



Estimated Bank Sweep Activity (\$B)
2017-2018



...with the proportion of sweep cash similar to the prior rate cycle.



As we look at 2019, there is, as always, much uncertainty...

Market

S&P down 6% for 2018 and up 8% in January

Short-term Rates

Uncertainty over future Fed Funds increases

Long-term Rates

10-year Treasury ended 2018 at 2.69%; ranged from 2.56%-2.79% in January

Trading

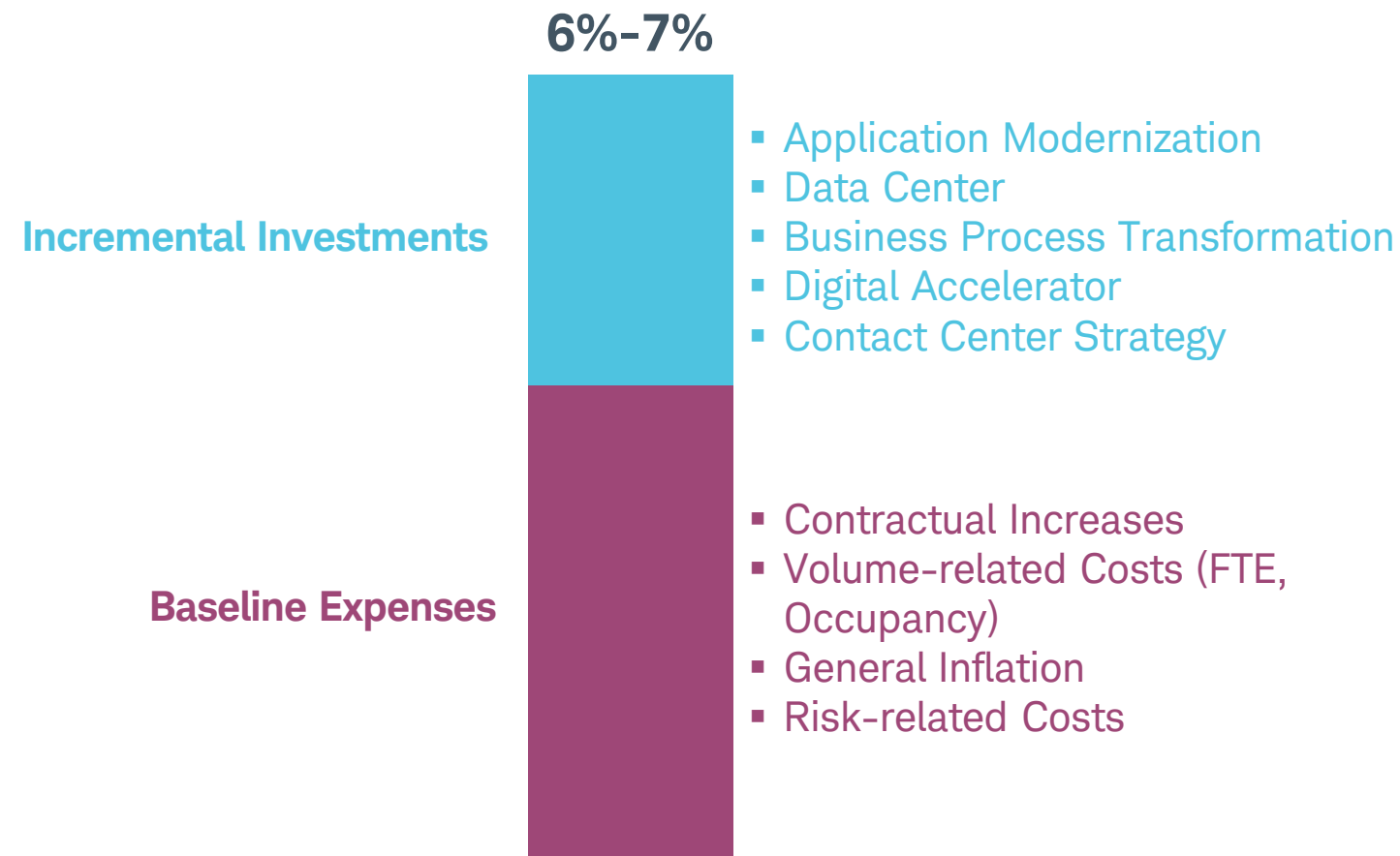
DARTs reached all-time highs in 2018 and CPRT decreased 3% in 4Q18 vs. 4Q17

Client Cash Allocation

Transfers should end by mid 2019, likely transfer around half of remaining SMMFs
Clients still sorting out cash allocations

...and we'll continue to exercise expense discipline to both grow and scale the business as we moderate our pace from recent years.

Composition of 2019 GAAP Expense Growth



- We are in a position to moderate spending growth while still supporting business expansion
- Our investments should help drive efficiency and scale going forward, as measured by our EOCA
- Over time, we expect our long-run expense growth rate in the low-to-mid single digits

Client cash choices will affect our 2019 outlook.

1

If you
assume...

Market

S&P appreciates 6.5%
from mid-January

Short-term Rates

One rate hike in June
2019 to 2.50%-2.75%

Long-term Rates

Average 10-year
Treasury at 2.80%

Trading

DARTs up ~5%
year-over-year

2

...and client
cash sorting...

...continues
OR
stops after 1Q19...

...the balance sheet could...

...decline 8%-9%
OR
grow 3%-4% from 12/31/18

3

Then revenue
growth could
range from...

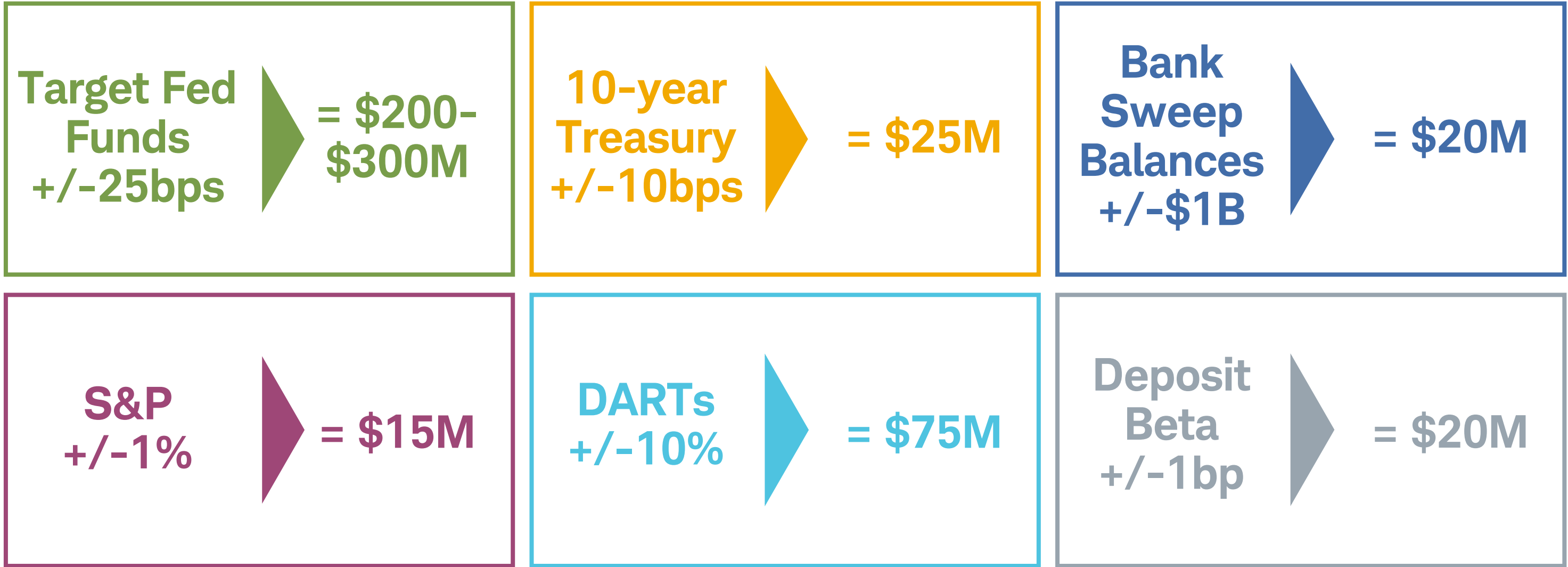
7%-11%

...and with expense growth
remaining constant at...
6%-7%

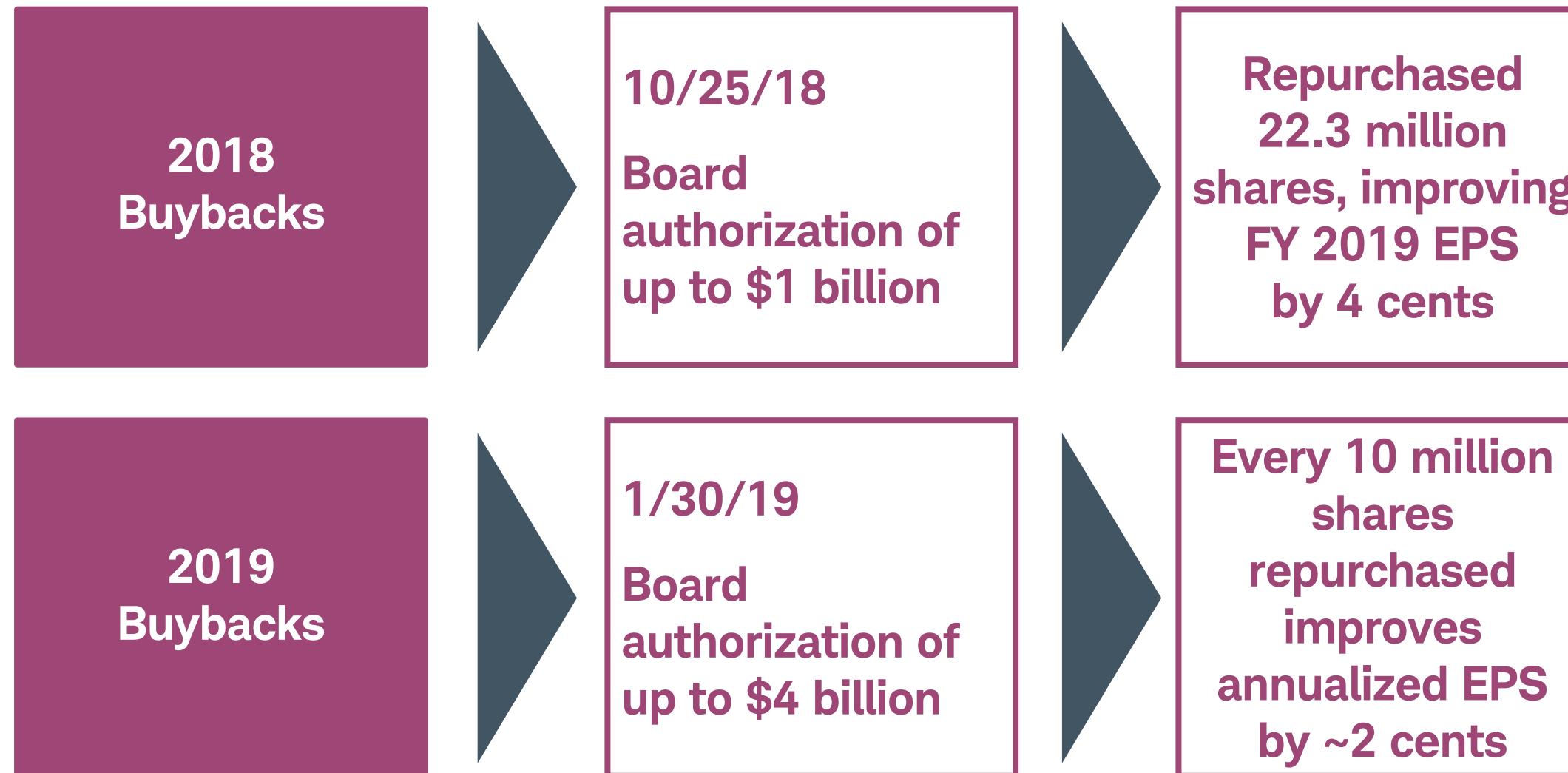
...pre-tax profit margin
would be 45% or more

Revenue sensitivities:

Key levers and estimated first year revenue impact:



Increased capital return should help strengthen EPS as we sustain a healthy balance sheet.



Schwab's financial formula – through the cycle, it powers our performance...

“Through the Cycle” Dynamics

Organic Client Asset Growth
5%-7%

Market Appreciation
6.5%

Total Client Asset Growth
High single to low double digits

Revenue Growth
High single to low double digits

Pre-tax Income Growth
Stronger than revenue growth

Pre-tax Profit Margin
Flat to expanding

Diluted EPS Growth
At least low double digits

...as shown through the past decade.

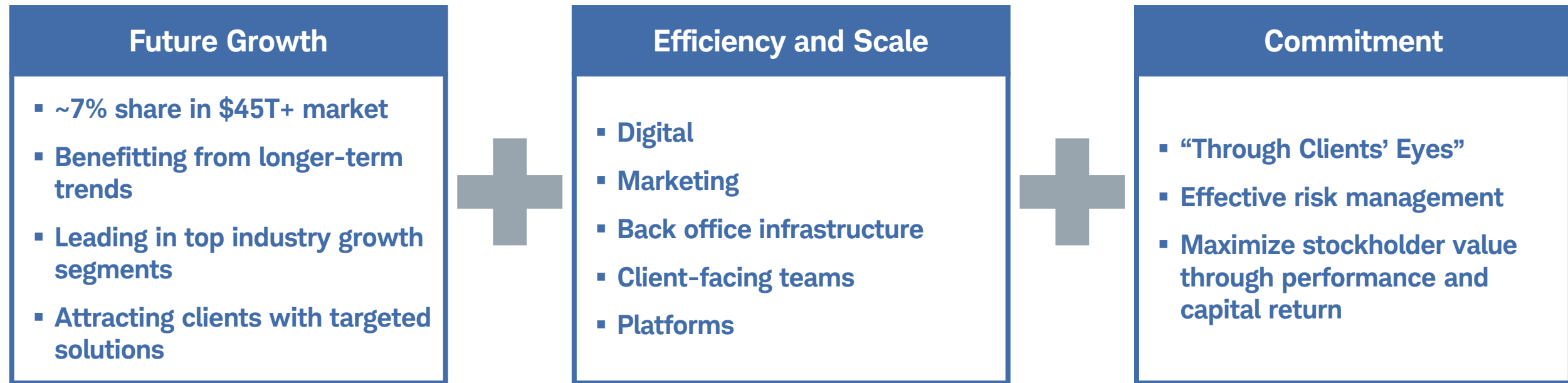
The Formula “at work”
from 2009-2018¹

“Through the Cycle” Dynamics

Organic Client Asset Growth	Market Appreciation	Total Client Asset Growth
5%-7%	6.5%	High single to low double digits
6%	9%	10%

Revenue Growth	Pre-tax Income Growth	Pre-tax Profit Margin	Diluted EPS Growth
High single to low double digits	Stronger than revenue growth	Flat to expanding	At least low double digits
10%	15%	1500bps expansion	15%

We are excited for the next decade of Schwab's story.



- Our 2019 outlook contemplates growth, **even if there is no significant help** from the macro environment
- We are entering a period in Schwab's journey of **both profitable growth and more meaningful capital return**
- **Our financial formula** has proven that it works through the cycle



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Winter Business Update

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