

Spring Business Update

April 21, 2017

charles
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Introduction

Rich
Fowler

Senior Vice President
Investor Relations

Agenda

Walt Bettinger, President & Chief Executive Officer

Joe Martinetto, Senior EVP & Chief Financial Officer

Peter Crawford, EVP, Finance

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,” “maintain,” “flexibility,” “assumption,” “estimate,” “lead,” “record,” “build,” “on track,” “prepare,” “anticipate,” “improve,” “potential,” “opportunity,” and other similar expressions. These forward-looking statements relate to disruptive actions; growth in the client base, accounts and assets; growth in revenues, earnings and profits; stockholder value; investments in relationships, technology and value; leadership position; scale and efficiency; core net new assets; client value and pricing; balance sheet growth and strength; bank deposit growth; preparations for crossing the \$250B asset threshold and the effect on portfolio yield; levers; timing, amount and net interest revenue impact of transfers of money market fund client balances to bank sweep; baseline scenario assumptions and financial expectations; impact of fluctuations in the S&P 500 index, short-term interest rates, long-term interest rates, and trading activity on the company’s results of operations; impact of recent pricing moves on revenue; gap between revenue and expense growth; pre-tax profit margin; balancing near-term profitability with reinvestment for growth; impact of future Fed rate moves on net interest margin and revenues and delivering incremental revenue to pre-tax profit; net total bulk transfer opportunity; and expenses. 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; the company’s ability to develop and launch new products, services and capabilities in a timely and successful manner; client use of the company’s investment advisory services 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; the quality of the company’s balance sheet assets; regulatory guidance; client sensitivity to rates; the timing and amount of bulk transfers; 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 **April 21, 2017** (or such earlier date as may be specified herein). The company makes no commitment to update any of this information.

Today's Dial-in Number

(800) 871-6752

Conference ID: 70914297



Walt Bettinger

President &
Chief Executive Officer

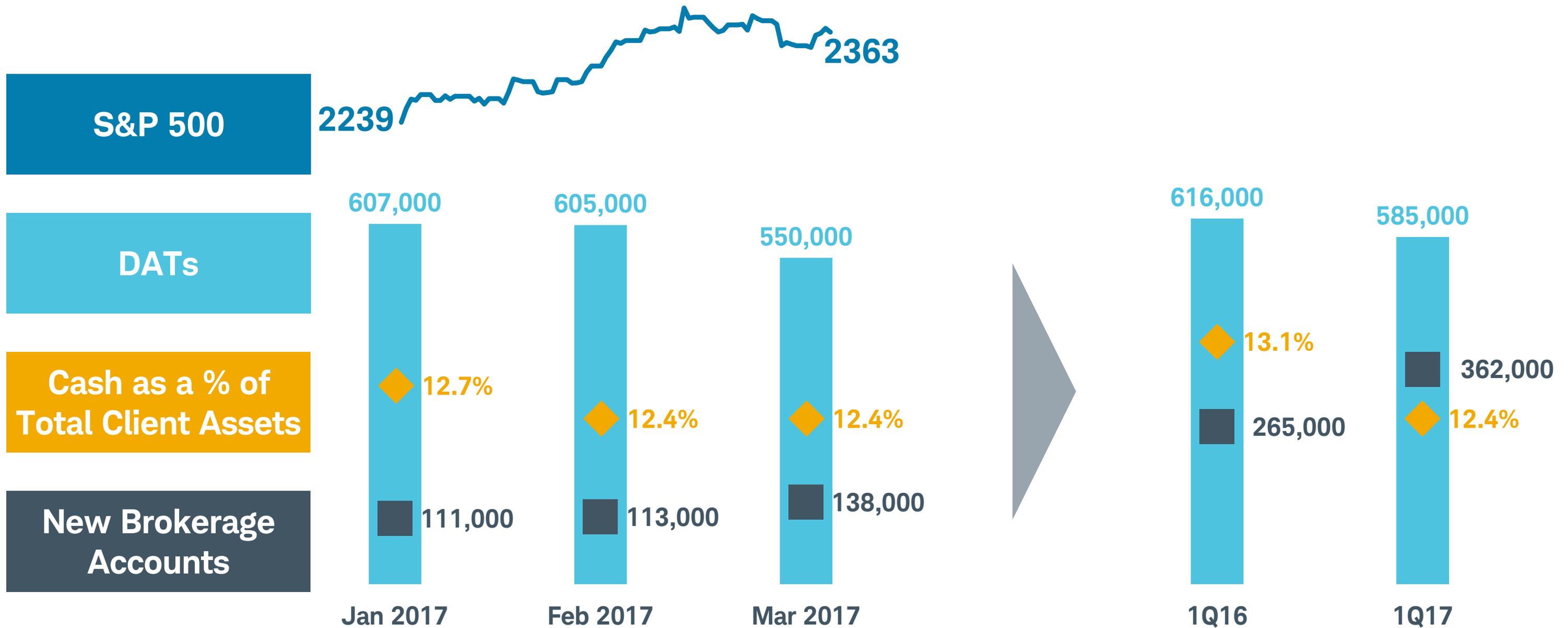
Schwab's Strategy – a Virtuous Cycle.



2017 is off to a record-breaking start as we continue to operate “through clients’ eyes.”

- Q1 2017 record-breaking client activity **reflects Schwab’s approach to serving investors**
- Investments in relationships, technology, and value **are fueling our growth**
- Our strategic moves reflect **disruptive actions that benefit clients** and help drive profitable growth to build **long-term stockholder value**
- We continue to build on our **leadership position in the industry** through consistent **asset gathering** and **operating efficiency**

In the first quarter, investors engaged with Schwab, adding the most new accounts since Q2 2000,...

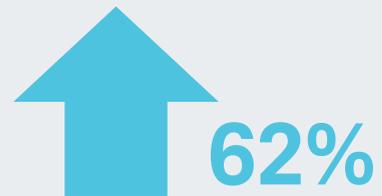


9 Note: Q1 2017 represented the most new accounts excluding acquisitions in 17 years.

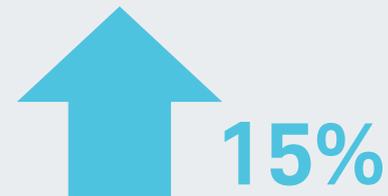
...utilizing our variety of capabilities,...

Q1 2017 vs. Q1 2016

Proprietary ETFs
\$69.3 billion



Pledged Asset Line®
\$3.8 billion



Web & Mobile Logins
126 million



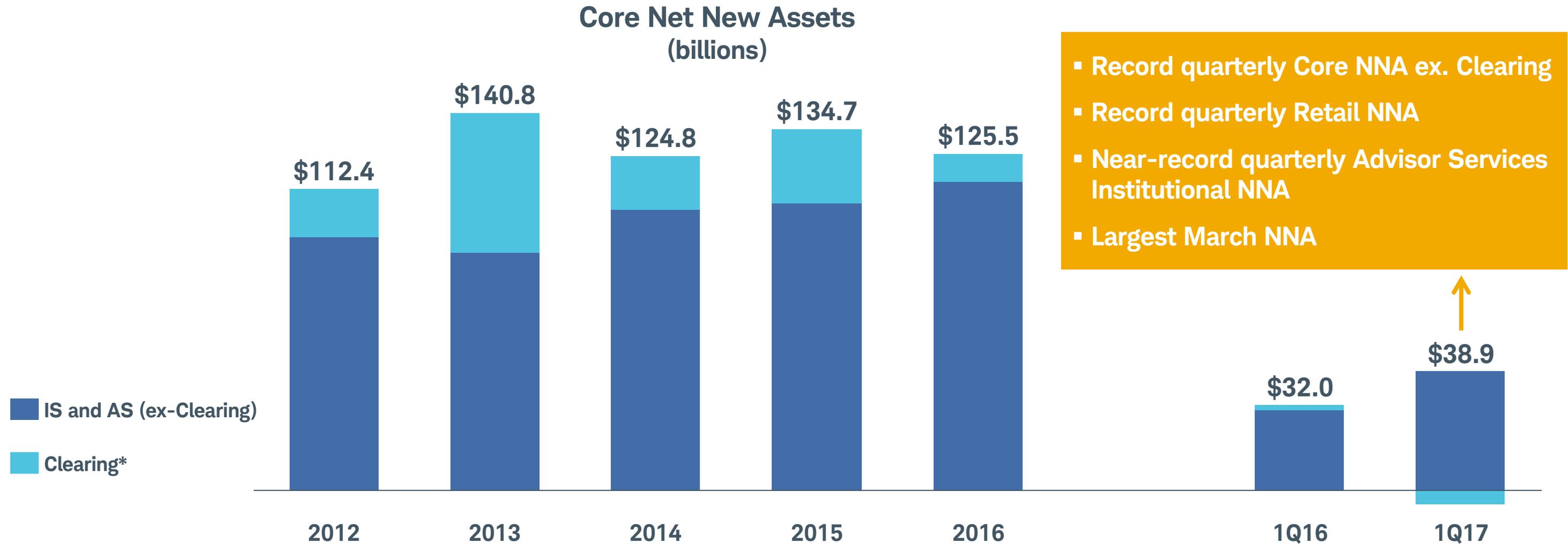
Planning Conversations
38,000 clients



Total Advised Assets
\$1.5 trillion



...and bringing more assets to Schwab.



On track for the sixth consecutive year in excess of \$100 billion

Note: Core net new assets is defined as net new assets before significant one-time flows, such as acquisitions/divestitures or extraordinary (greater than \$10 billion) mutual fund clearing transfers. Advisor Services Institutional excludes Retirement Business Services assets.

* Includes all clearing flows under \$10 billion.

We made significant investments in relationships, technology, and value in the first quarter.

Relationships

- Placed the largest FC Academy graduating class to date of 37 in the branches
- Debuted ADVANTAGE® event for growth-oriented RIAs
- 9 branch additions/renovations/relocations

Technology

- Launched Schwab Intelligent Advisory™
- Completed upgrade of field CRM tools across all branches
- Enhanced Schwab Advisor Center® and Institutional Intelligent Portfolios®

Value

- Reduced online equity, ETF, and options trade commissions
- Lowered cap-weighted index mutual fund expenses
- Initiated an industry-first Satisfaction Guarantee

Our “Through Clients’ Eyes” strategy – the no trade-offs position.

Value



Deliver industry-leading pricing to all of our clients

Service



Deliver world class service to investors and advisors

Transparency



Ensure every client interaction is clear, simple, and easy

Trust



Treat clients the way we would like to be treated

Sharing our scale advantages with clients by lowering the cost of trade commissions.

Online Equity, ETF, and Options Trade Commissions

\$8.95 ➔ **\$4.95**

Also lowered option
per contract fee to \$0.65

Note: Certain restrictions apply. See www.schwab.com/pricing for details.

Sharing our scale advantages with clients by lowering the cost of investing.

We believe it's important to offer our best price to every investor

Announcing the lowest cost index funds in the industry.

Schwab Funds now have the lowest costs for market cap index funds with no minimums¹.

Pay up to 80% less than Vanguard and 70% less than Fidelity when you invest with Schwab. Plus, you'll pay the same low cost whether you have \$5 or \$5 million to invest.

Are you getting the lowest costs for market cap index funds with no minimums? If not, then visit schwab.com/indexfunds or call us at 877-804-3521 to get started.

Investors should consider carefully information contained in the prospectus, or if available, the summary prospectus by visiting www.schwab.com/prospectus. Please read it carefully before investing.

¹ The table is based on a comparison and analysis with the following industry funds: Fidelity's S&P 500 Index Fund for Domestic Investors (FSPXX) and Vanguard's S&P 500 Index Fund (VFIAX) as their respective lowest cost offerings. Schwab's lowest cost offering is the S&P 500 Index Fund (SWSPX) with a 0.03% expense ratio. The table is based on a comparison and analysis with the following industry funds: Fidelity's S&P 500 Index Fund for Domestic Investors (FSPXX) and Vanguard's S&P 500 Index Fund (VFIAX) as their respective lowest cost offerings. Schwab's lowest cost offering is the S&P 500 Index Fund (SWSPX) with a 0.03% expense ratio. The table is based on a comparison and analysis with the following industry funds: Fidelity's S&P 500 Index Fund for Domestic Investors (FSPXX) and Vanguard's S&P 500 Index Fund (VFIAX) as their respective lowest cost offerings. Schwab's lowest cost offering is the S&P 500 Index Fund (SWSPX) with a 0.03% expense ratio.

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How much are you paying for market cap index funds?

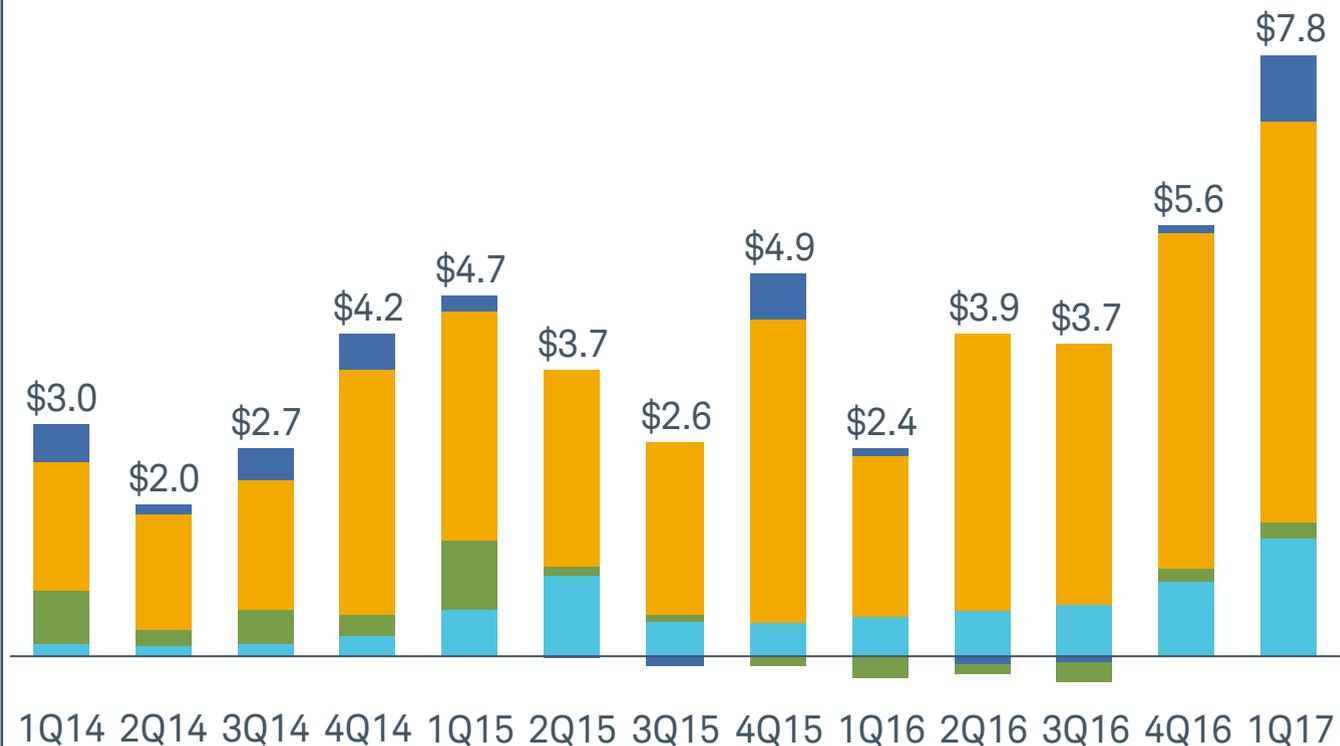
Investment	Fidelity	Vanguard	Schwab
S&P 500 Index Fund			
\$1	0%	0%	0.03%
\$5,000	0.03%	0.04%	0.03%
\$1,000,000	0.04%	0.04%	0.03%
\$5,000,000	0.03%	0.04%	0.03%
Total Stock Market Index Fund			
\$1	0%	0%	0.03%
\$5,000	0.03%	0.04%	0.03%
\$1,000,000	0.04%	0.04%	0.03%
\$5,000,000	0.03%	0.04%	0.03%
Small Cap Index Fund			
\$1	0%	0%	0.05%
\$5,000	0.03%	0.04%	0.05%
\$1,000,000	0.04%	0.04%	0.05%
\$5,000,000	0.03%	0.04%	0.05%
International Index Fund			
\$1	0%	0%	0.06%
\$5,000	0.03%	0.04%	0.06%
\$1,000,000	0.04%	0.04%	0.06%
\$5,000,000	0.03%	0.04%	0.06%
US Aggregate Bond Index Fund			
\$1	0%	0%	0.04%
\$5,000	0.03%	0.04%	0.04%
\$1,000,000	0.04%	0.04%	0.04%
\$5,000,000	0.03%	0.04%	0.04%

Expense shown as of 3/1/17
Learn more at schwab.com/indexfunds



We experienced record quarterly net flows in our index products

Quarterly Schwab Index Product Net Flows (\$B)



■ Cap-Weighted Index MF ■ Fundamental Index MF
■ Cap-Weighted Index ETF ■ Fundamental Index ETF

Backing everything we do with an industry-first satisfaction guarantee.

SATISFACTION GUARANTEE

If a Schwab client is not satisfied for any reason, Schwab will refund commissions, transaction fees or advisory program fees paid to the firm

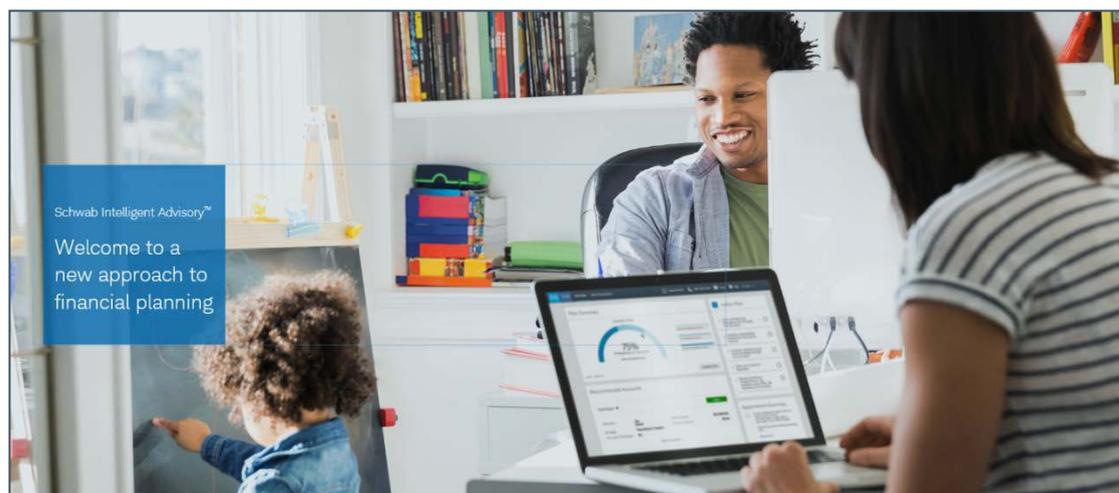
Note: Certain restrictions apply. See www.schwab.com/satisfaction for details.

Advisory services for the mass affluent...

Intelligent Portfolios launched in March 2015

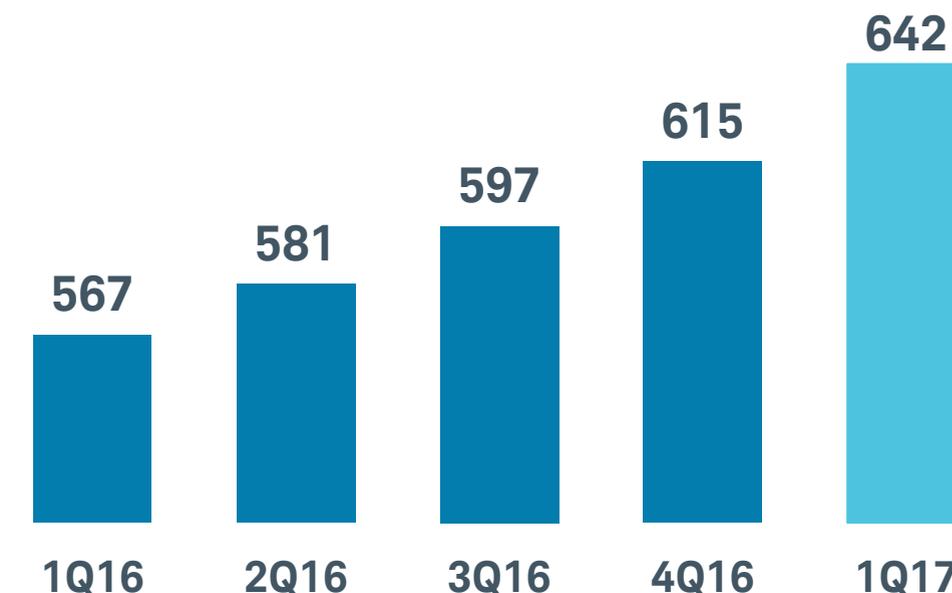


Schwab Intelligent Advisory™ launched in March 2017



-  Interactive, online planning
-  1:1 live advice and portfolio recommendations
-  Intelligent tech and ongoing advice

Total Accounts in Retail Advisory Solutions (thousands)



- Total accounts in retail advisory solutions were **up 13%** year-over-year
- Advised assets are **18%** of total retail assets

...which are part of a superior investing experience.

Schwab ranked "**Highest in Investor Satisfaction With Full-Service Brokerage Firms**" in the 2016 and 2017 Full Service Investor Satisfaction Studies



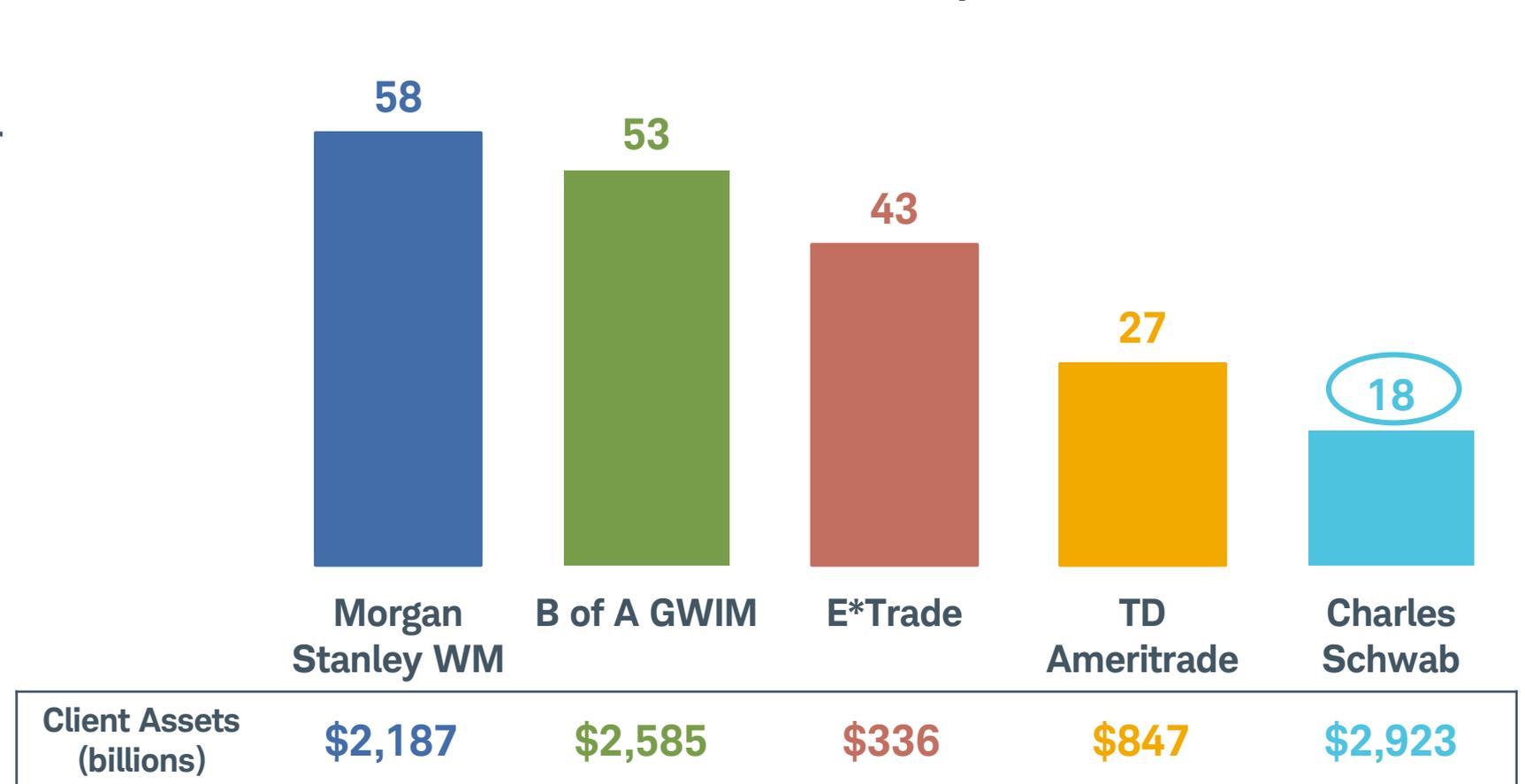
Note: Charles Schwab received the highest numerical score in the J.D. Power 2016 and 2017 Full Service Investor Satisfaction Studies, based on 6,006 responses from 20 firms measuring opinions of investors who used full-service investment institutions and were surveyed in January 2016 and 6,579 responses from 20 firms measuring opinions of investors who used full-service investment institutions and were surveyed in January 2017. Your experiences may vary. Visit jdpower.com.

We have the highest client assets and the lowest cost to serve them among U.S. publicly-traded investment services firms.

Our **scale and efficiency** is a **competitive advantage**, making it difficult for competitors to replicate our client offerings because we have the:

- Ability and courage to **disrupt**
- Flexibility to **enhance value and lower pricing** for clients
- Long-term perspective to **emphasize relationships** over product sales

Expense to Average Client Assets
1Q17 (bps)



Source: Publicly available company reports for quarter ended March 31, 2017.

2017 is off to a record-breaking start as we continue to operate “through clients’ eyes.”

- Q1 2017 record-breaking client activity **reflects Schwab’s approach to serving investors**
- Investments in relationships, technology, and value **are fueling our growth**
- Our strategic moves reflect **disruptive actions that benefit clients** and help drive profitable growth to build **long-term stockholder value**
- We continue to build on our **leadership position in the industry** through consistent **asset gathering** and **operating efficiency**

Joe Martinetto

Senior Executive Vice President &
Chief Financial Officer

We began 2017 with our best earnings quarter ever.

- Benefits from the second and third rate hikes are already showing up
- Our balance sheet remains well-capitalized and we are preparing to cross \$250 billion in consolidated assets
- Will continue to manage levers under our control to apply flexibility as necessary

Today we'll discuss:

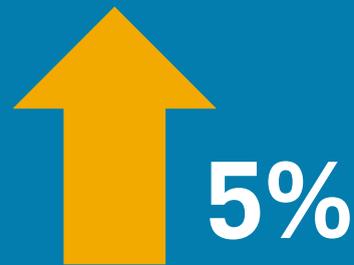
- Q1 2017 results
- Capital picture
- 2017 financial outlook

Our client base grew to new records in Q1 2017...

Q1 2017 vs. Q1 2016 EOP:

**Total Active
Brokerage Accounts**

10.3 million



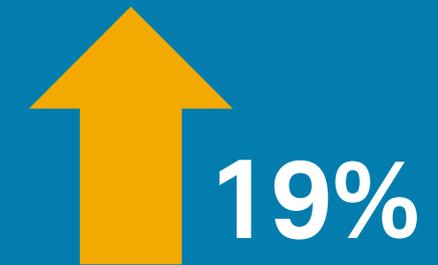
Total Client Assets

\$2.9 trillion

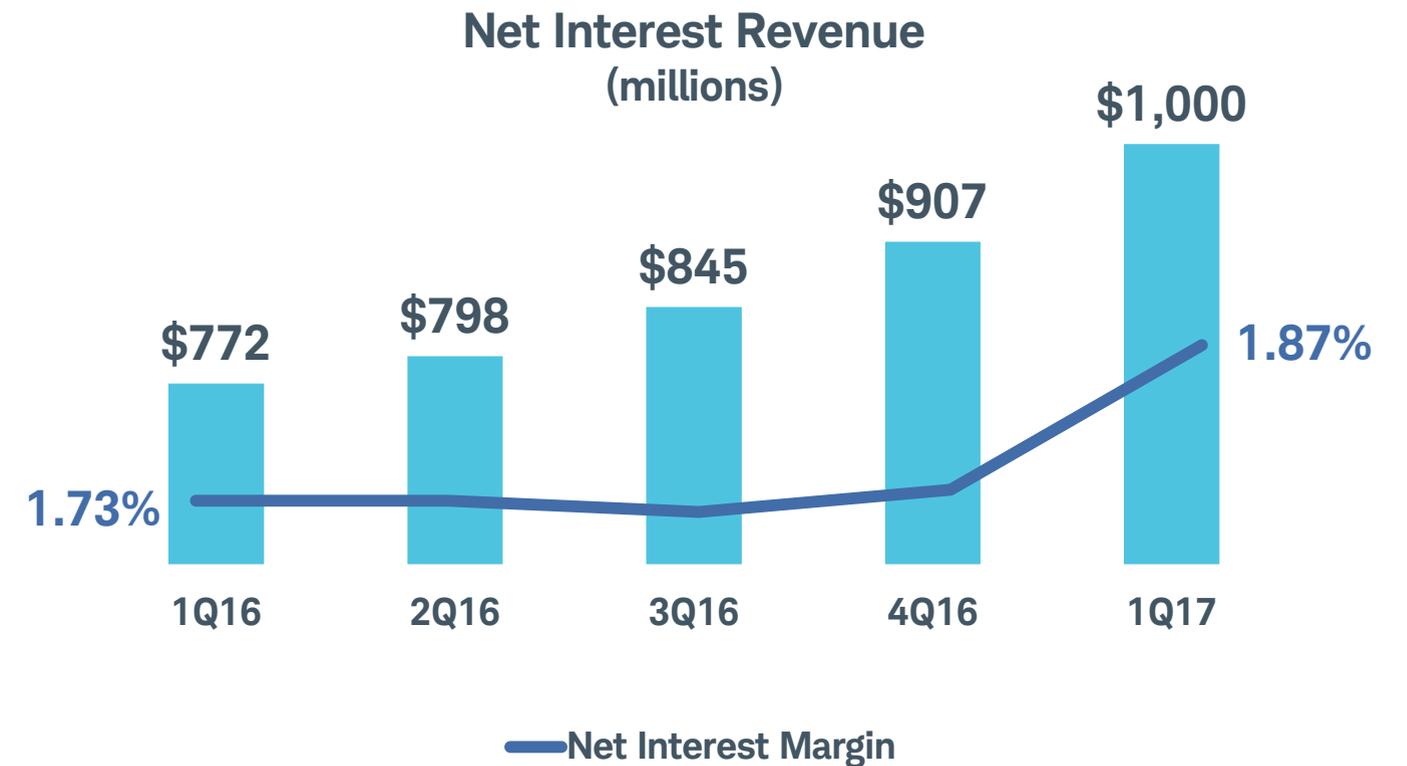
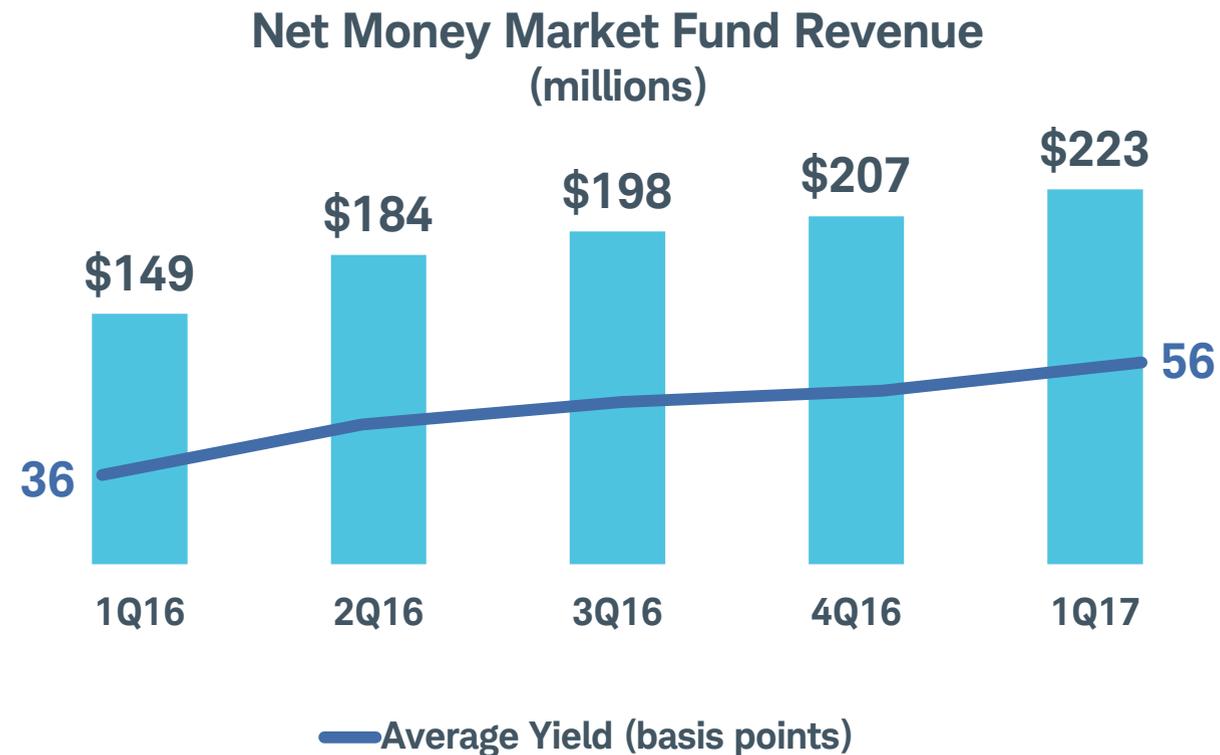


Interest-Earning Assets

\$220 billion



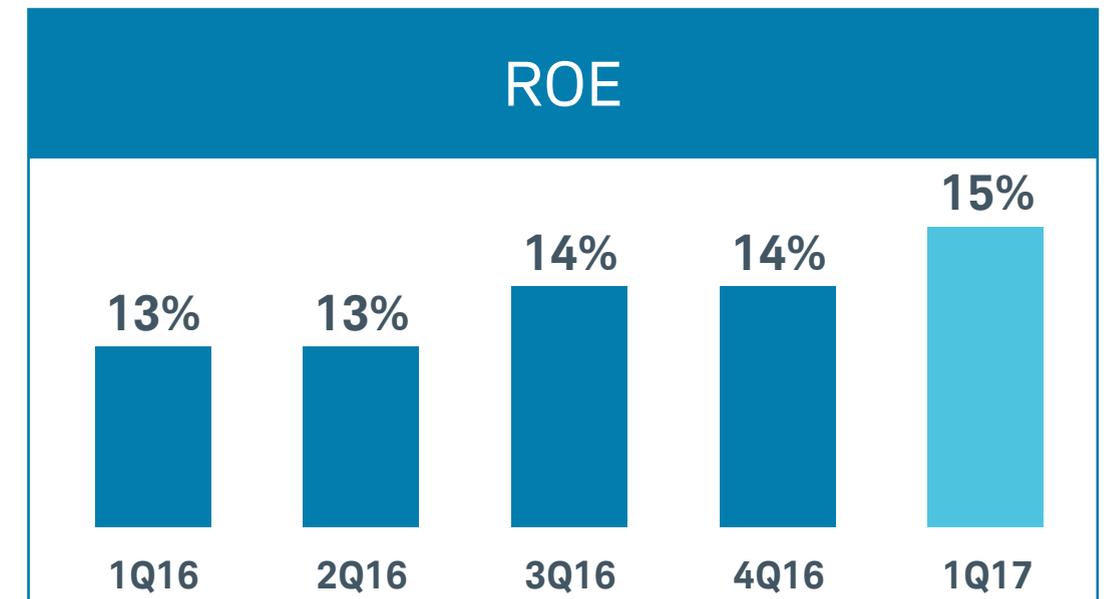
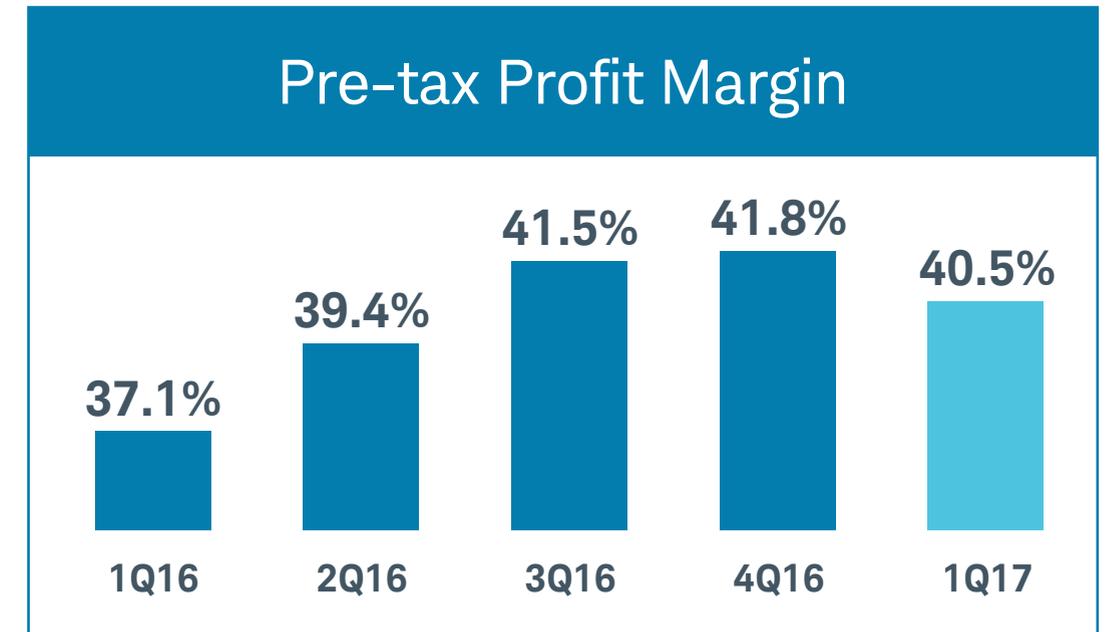
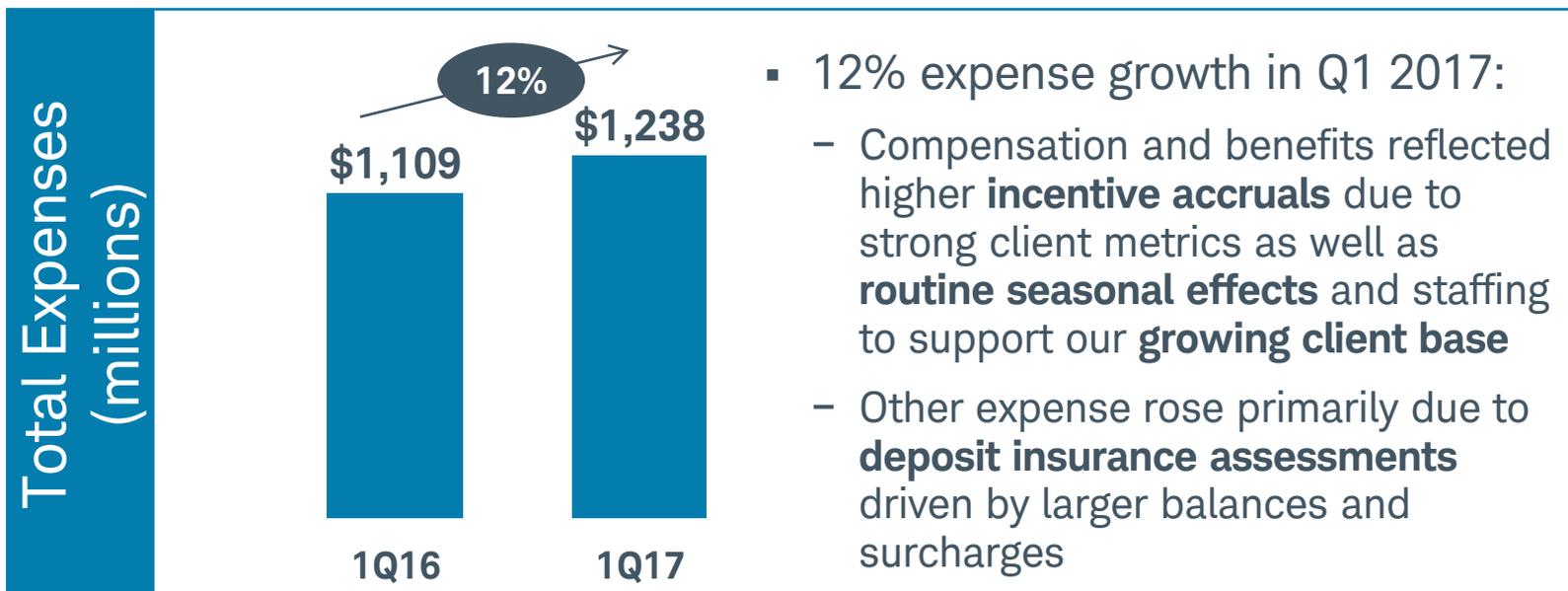
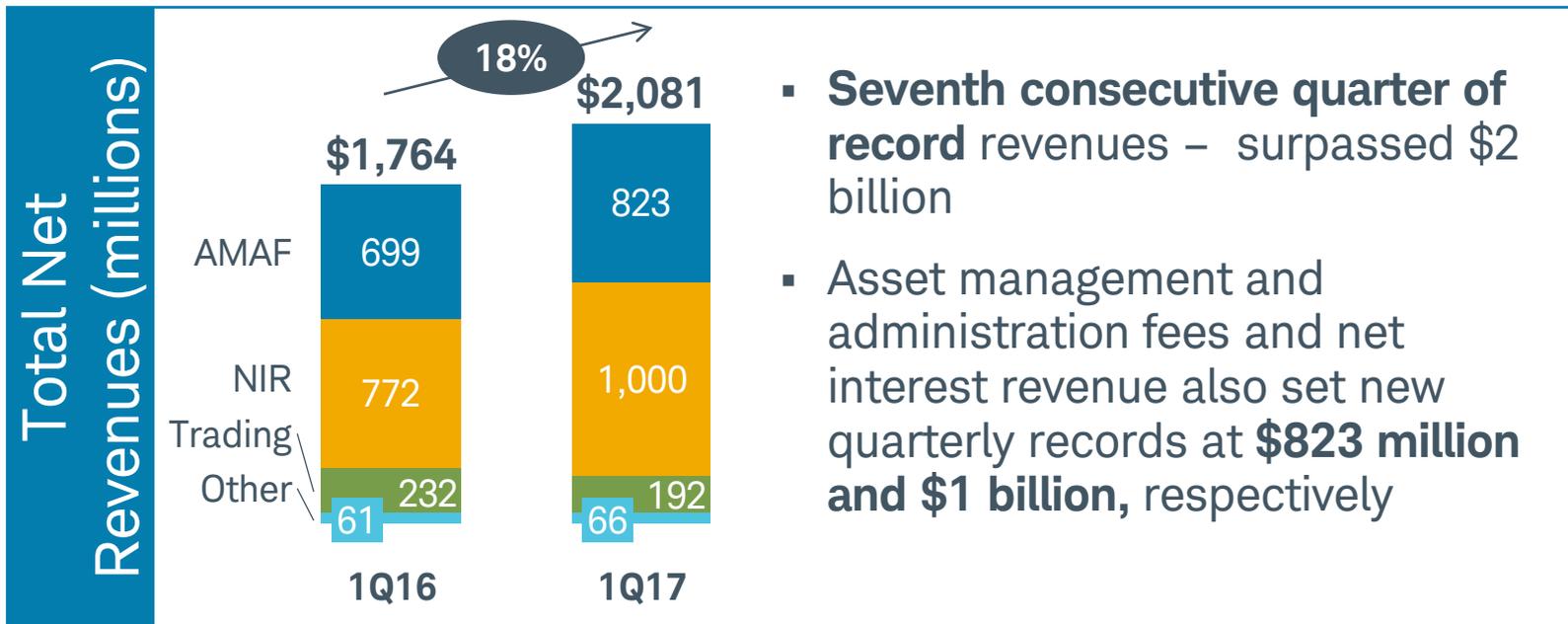
...and with the second and third rate hikes, we continued to see the benefits of Schwab's model.



- Q1 2017 net money fund **revenues** were **50% higher** than Q1 2016; with the March rate hike, essentially **all of the fee waivers have been eliminated**

- Net interest revenue** in Q1 2017 was **up 30%** year-over-year, as a result of higher interest-earning assets and higher rates

First quarter results represent record revenues and the highest quarterly ROE in six years.



We continued to manage our balance sheet for liquidity and the ongoing growth in our client base.

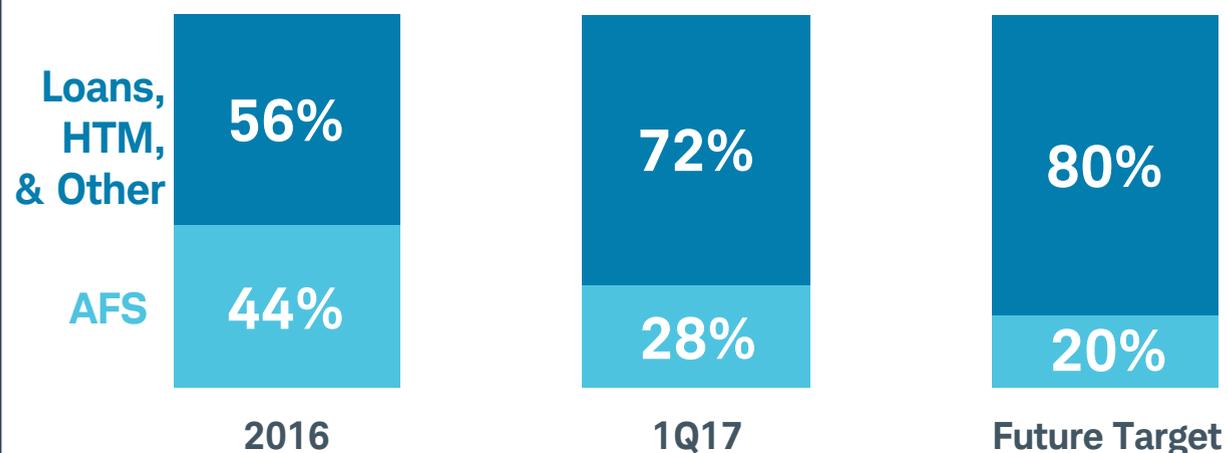
(in millions, EOP)	1Q16	4Q16	1Q17*	
Total Assets	\$190,998	\$223,383	\$227,061	→ We are being mindful of the \$250 billion consolidated asset threshold
Bank Deposits	\$135,689	\$163,454	\$166,889	→ Moved approximately \$1.1 billion in sweep deposits from Schwab One [®] to the Bank in Q1 2017 and we anticipate \$500 million to \$1 billion in money fund bulk transfers in Q2 2017
Payables to Brokerage Clients	\$32,282	\$35,894	\$34,267	
Long-Term Debt	\$2,877	\$2,876	\$3,518	→ Issued \$650 million 3.2% senior notes due 2027 in Q1 2017 which has helped to boost liquidity
Stockholders' Equity	\$14,513	\$16,421	\$16,982	
Parent Liquidity	\$2,345	\$1,961	\$2,257	
Tier 1 Leverage Ratio	7.3%	7.2%	7.1%	→ Tier 1 Leverage Ratio above 6.75%-7% range

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.

We are taking steps in advance of crossing the \$250 billion consolidated asset threshold.

We are making adjustments to the AFS portfolio size to better manage AOCI in capital ratios...

Total Bank Asset Allocation

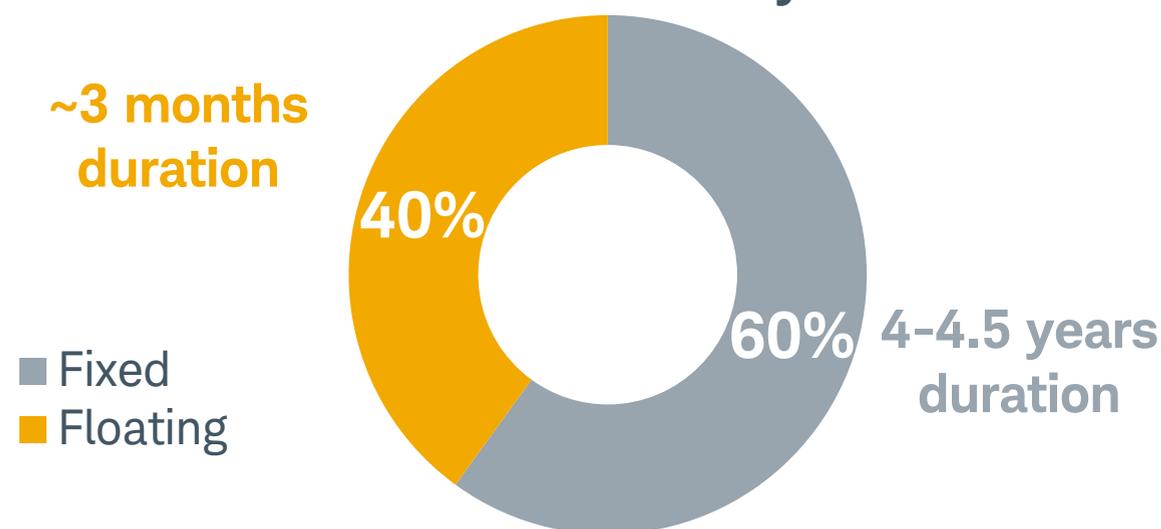


- We have historically accounted for the majority of our investments as AFS, but in anticipation of crossing \$250 billion and **evaluating price sensitivity at the asset level**, we have taken the following actions:
 - **20% floor on AFS as a proportion of total bank assets and parameters on how future purchases will be accounted for**
 - **Transferred \$25 billion of investments from AFS to HTM**

...and adding more Level 1 HQLA, but our ALM strategy remains the same.

Fixed/Floating Bank Portfolio Allocation

Total duration ~2.75 years



- Purchased ~\$2 billion in Level 1 HQLA in Q1 2017; expect to add more throughout the year to ensure that:

$$HQLA \div Total\ Net\ Cash\ Outflow \geq 100\%$$

- Any effect on portfolio yield should be small – 1 basis point of NIM at \$250 billion in consolidated assets

Note: HTM = Held to Maturity Securities. AFS = Available for Sale Securities. AOCI= Accumulated Other Comprehensive Income. ALM= Asset / Liability Management. HQLA= High Quality Liquid Assets.

Peter Crawford

Executive Vice President, Finance

Our 2017 “recalibrated” baseline scenario allows us to invest in the future and deliver improved profitability.

2017 Baseline Scenario Assumptions:

Market

- S&P appreciates 6.5%

Interest Rates

- **Short-term rates:** A single 2017 Fed Funds rate hike (in June) to 0.75-1.00%
- **Long-term rates:** average 10-year Treasury at 2.45%

Trading

- DARTs flat year-over-year

2017 Baseline Financial Expectations:

- Revenue growth in the low double digits; **recent pricing moves are equivalent to ~\$25 million in monthly revenue give up**
- Gap between revenue and expense growth of approximately 200-300 basis points
- Pre-tax profit margin of at least 41%

- With the March 2017 rate hike, we are **balancing incremental revenue between reinvestment in the business and pre-tax profit**

We are starting out 2017 well positioned relative to that “recalibrated” scenario...

2017 Baseline Scenario Assumptions		YTD Actual
Market	<ul style="list-style-type: none"> ▪ S&P appreciates 6.5% ▪ <u>Short-term rates</u>: A single 2017 Fed Funds rate hike (in June) to 0.75-1.00% ▪ <u>Long-term rates</u>: average 10-year Treasury at 2.45% ▪ DARTs flat year-over-year 	<ul style="list-style-type: none"> ▪ S&P up 6% year-to-date ▪ <u>Short-term rates</u>: March Fed Funds rate hike 25 bps to 0.75-1.00% ▪ <u>Long-term rates</u>: 10-year Treasury averaged 2.44% for the quarter ▪ DARTs down 3% year-over-year
Interest Rates		
Trading		
2017 Baseline Financial Expectations		Q1 Actual
Revenue	<ul style="list-style-type: none"> ▪ Revenue growth in the low double-digits ▪ Gap between revenue and expense growth of approximately 200-300 basis points ▪ Pre-tax profit margin of at least 41% 	<ul style="list-style-type: none"> ▪ Revenue growth = 18% ▪ Expense growth = 12% ▪ Pre-tax profit margin = 40.5%
Expense		
Margin		

...and flexibility remains paramount.

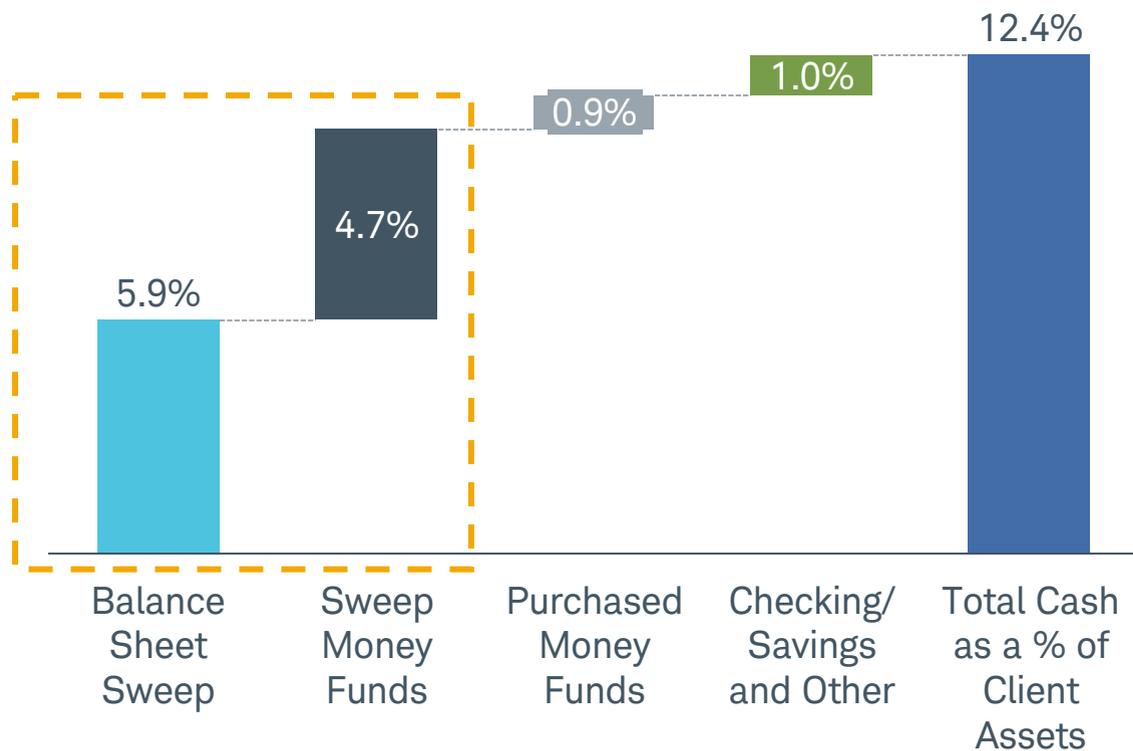
- Changes in **net interest margin** from here are largely dependent on **Fed actions**
 - Year one revenue impact of a 25 basis point increase remains at initial estimates of \$200-\$300 million
 - We would aim to deliver the majority of any potential incremental revenue from post-March rate increases to pre-tax profit
- We will continue to maintain the flexibility to **balance near-term profitability** with **reinvestment for growth**, making the most of the environment while offering **better value to our clients and prospects**

As we refine our thinking about yield-insensitive client cash, we are focusing on long-term expectations for sweep on the balance sheet.

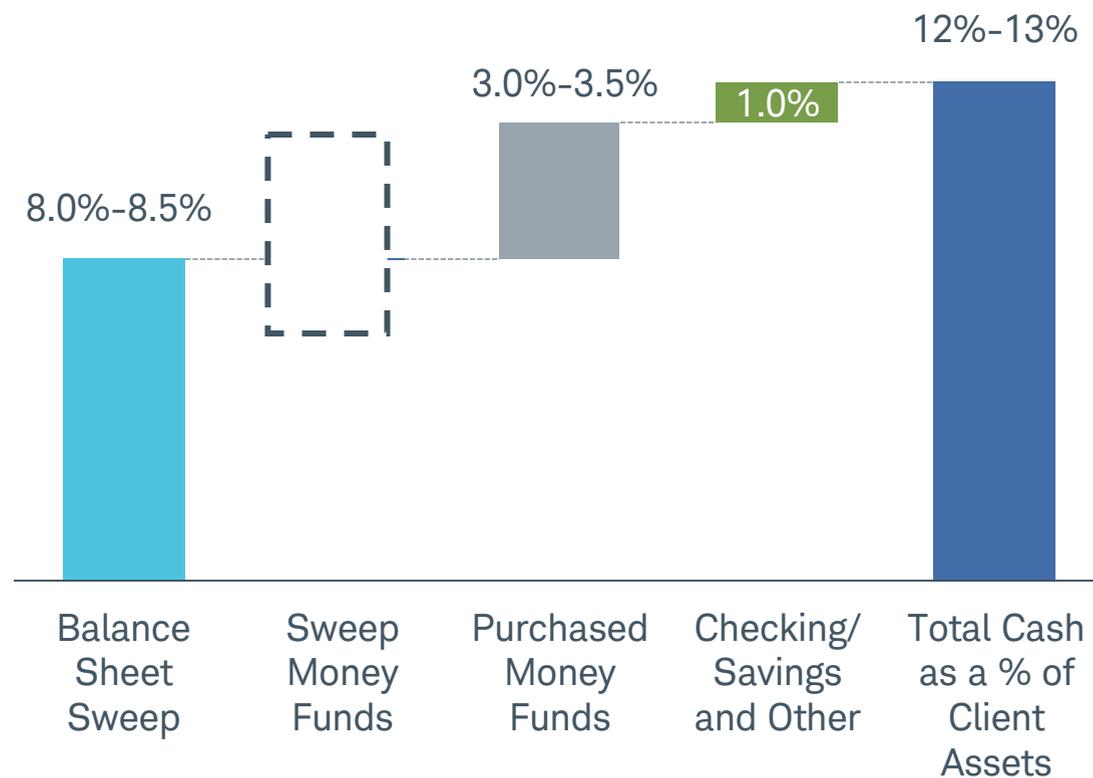
Most client cash is in sweep: balance sheet or money funds; we estimate the majority is relatively yield insensitive – 8-8.5% of total client assets

As rates normalize with a 2-3% Fed Funds target, the yield insensitive cash will find its level in sweep and the remainder will seek higher yields in purchased money funds

Cash as a % of Total Client Assets – Current State



Cash as a % of Total Client Assets – Potential Future State



This 8-8.5% estimate implies a net total bulk transfer opportunity today of \$60-\$80 billion

Note: Based on Q1 2017 actuals.

We are pursuing our growth opportunities from a position of strength.

- Benefits from the second and third rate hikes are already showing up
- Our balance sheet remains well-capitalized and we are preparing to cross \$250 billion in consolidated assets
- Will continue to manage levers under our control to apply flexibility as necessary

Our financial story remains simple:

- **Solid business growth** through our client-first strategy
- **Solid revenue growth** through diversified sources
- **Expense discipline** leading to improved performance



Q&A

Spring Business Update

April 21, 2017

charles
SCHWAB

Own your tomorrow®