



May 4, 2023

Review of Charles Schwab Financials

Short description: Using slides from Schwab's recent "Spring Business Update" and Q1 2023 earnings release we review the highlights focused on the company's cash position and banking risks considering recent turmoil in the global banking industry.

The conclusion is that Schwab's is not much of a traditional bank and stands to benefit on a net basis from smaller and more aggressive banks failing. When "deposit flight" occurs at these traditional banks that cash must have somewhere to flee to. One of those destinations has been Schwab.

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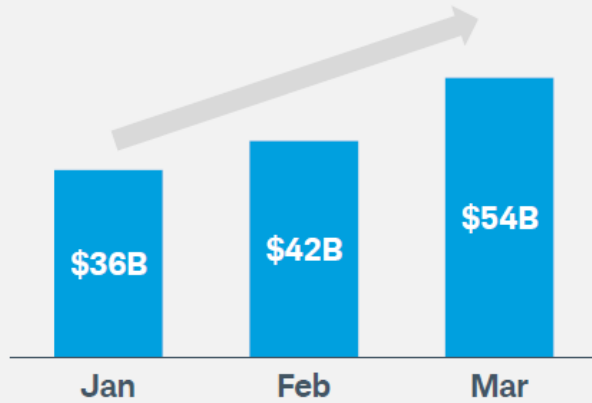
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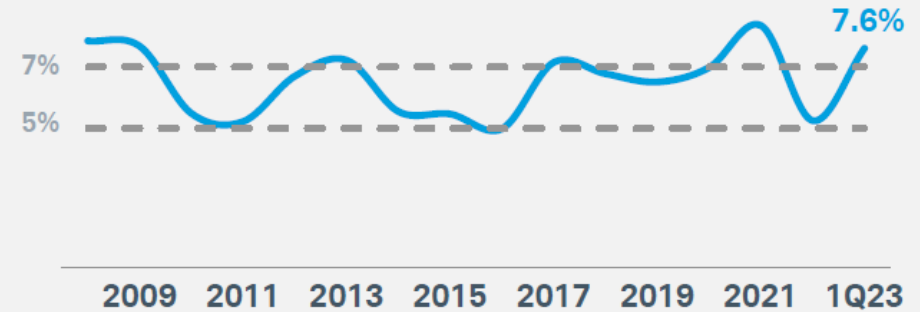
Q1 2023

\$132B Core Net New Assets

The pace of our strong asset gathering accelerated throughout the first quarter



Organic Core NNA Growth Rates



We have grown through a wide range of environments

Note: Q = Quarter. B = Billion. NNA = Net New Assets. 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, and activity from off-platform Schwab Bank Certificates of Deposit. These flows may span multiple reporting periods.

Despite the noise from shorts, the press, and certain competitors, the facts are clear. We continue to operate from a position of strength and remain confident in our long-term future.



Significant liquidity derived from a wide range of sources



Capital well in excess of regulatory requirements and strong, ongoing organic formation



Industry **leading percentage of bank deposits FDIC insured** and diversified across an enormous client base



Assets conservatively and consistently managed, comprised of high-quality, liquid securities



Our **ability to deliver for long-term stockholders** is firmly intact

We have a 50-year track record of success serving clients, conservative management, and delivering for long-term stockholders

Note: FDIC = Federal Deposit Insurance Corporation.

Charles Schwab Corporation

Significant liquidity derived from a wide range of sources

- While we do not see a feasible scenario where we might need it, in aggregate, we estimate having **access to well over \$300 billion in additional liquidity** – without needing to sell a single security
- Approximately **\$100 billion in organic liquidity** from cash on hand, principal and interest payments from our investment portfolio, and net new assets we anticipate gathering over the next twelve months
- We **plan for periods of increased liquidity needs** by reserving our CD and FHLB capacity
- Retail CDs, FHLB advances, and other short-term borrowings provide **temporary supplemental funding**, with a preference toward retail CDs
- **Access to other facilities**, that we are not currently planning to utilize

Note: CD = Certificate of Deposit. FHLB = Federal Home Loan Bank.

Charles Schwab Corporation

Industry **leading percentage of bank deposits FDIC insured** and diversified across an enormous client base

- As of quarter-end, **~86% of our bank deposits were within FDIC insurance limits**
- Client bank deposits primarily originate from our **large, diverse brokerage client base**:
 - 34.1 million accounts spread across individual investors and the advisors who serve them
 - Top 10 RIAs represent approximately 2% of Bank Sweep cash, with average Bank Sweep cash per account less than \$13K

Assets conservatively and consistently managed, comprised of high-quality, liquid securities

- We have deployed cash balances beyond client demand for lending solutions into **high-quality, liquid investment securities** or cash reserves
- By design, **we do not take meaningful credit risk** on the balance sheet
- We **do not attempt to guess or make timing bets on interest rate movement**
- We **did not extend our portfolio duration**² outside our normal range (2.75 – 4.00 years) during the pandemic-driven ZIRP period, while overall asset duration stayed around 2.5 years
- While we **do not guess interest rate movements**, we did build liquidity ahead of the current tightening cycle – increasing cash on hand by over \$60B

Loan-to-deposit Ratio³

~12%

Realized Loan Losses¹

<0.25%

% securities portfolio backed by U.S. government or agency³

85-90%

Note: B = Billion. ZIRP = Zero Interest Rate Policy. 1. Represents net charge-offs as a percentage of loan balances since 2003. 2. Includes cash (e.g., excess reserves and short-term commercial paper). 3. As of March 31, 2023.

Charles Schwab Corporation

Schwab's sustained business momentum was powered by our success with both individual investors and RIAs.

- **We are winning with clients on all fronts**, and remain well positioned to continue serving both new and existing clients
- We **continue to be a leader** in serving retail and RIA clients in a growing marketplace
- Executing on **key initiatives** within our strategic focus areas will further bolster our long-term growth

1Q23 Segment Highlights

Investor Services



\$60B+

Core Net New Assets



+18%

Y/Y Increase in HNW Net New Assets¹



56%

% New To Firm Households < 40 years

Advisor Services



\$71B+

Core Net New Assets



2.4x

TOA Ratio²



+30%

Y/Y Increase in Avg. Deal Size

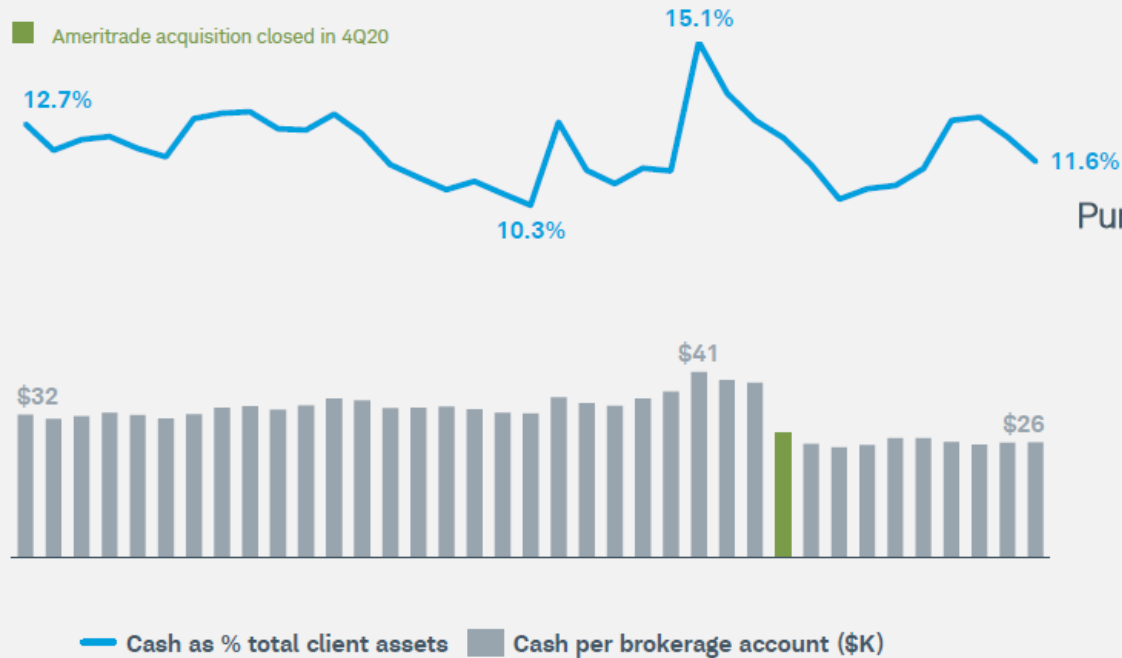
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Note: RIA = Registered Investment Advisor. HNW = High net worth. Q = Quarter. B = Billions. TOA = Transfer of Assets. Y/Y = Year-over-year. Avg. = Average. Core Net New Assets = net new assets before significant one-time flows, such as acquisitions/divestitures or extraordinary flows (generally greater than \$10 billion) relating to a specific client. These flows may span multiple reporting periods. 1. Includes client households with at least \$1 million in assets at the firm. 2. Represents Schwab Advisor Services only.

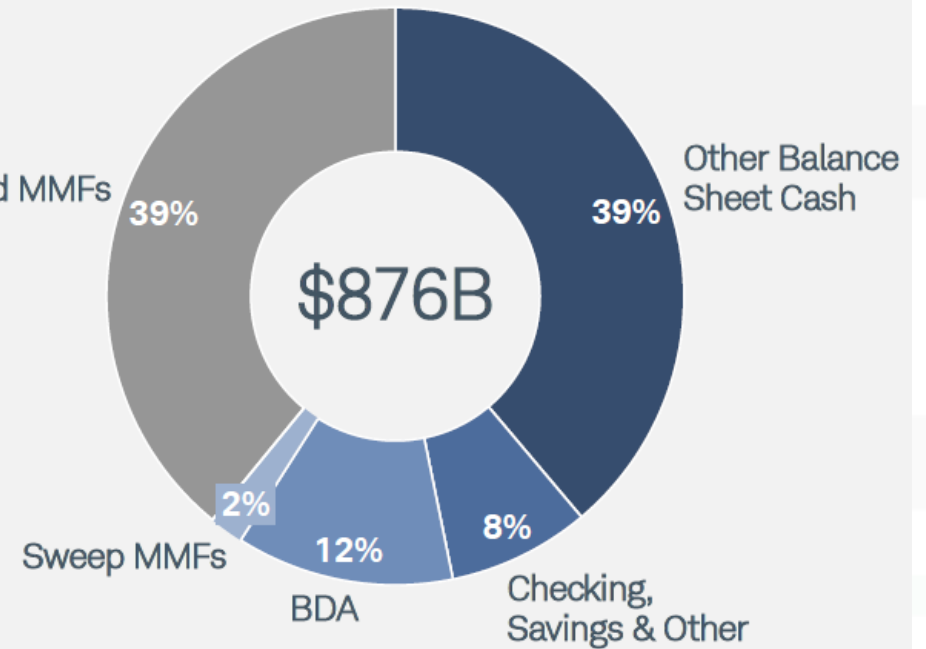
Appendix

Historical Client Cash Trends (as of March 31, 2023)

Select Client Cash Metrics, 1Q14 – 1Q23 (\$K, %)



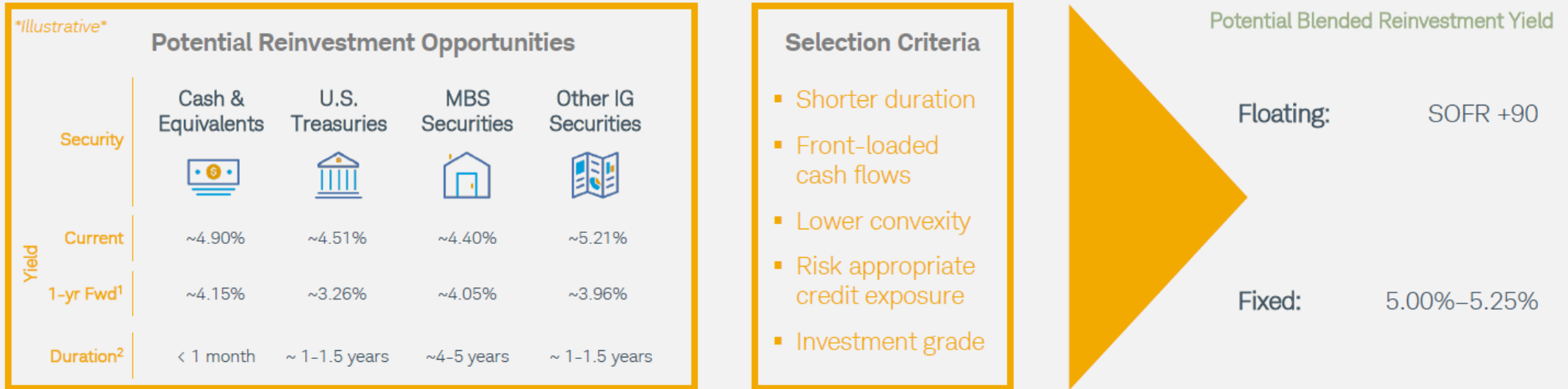
Total Client Cash Mix, 1Q23 (%)^{1, 2}



Note: K = Thousands. B = Billions. Q = Quarter. MMF = Money market fund. BDA = Bank deposit account. 1. Other Balance Sheet Cash includes bank sweep deposits and Schwab One balances. 2. Total may not sum to 100% due to rounding.

Appendix

Reinvestment Opportunities (as of March 31, 2023)



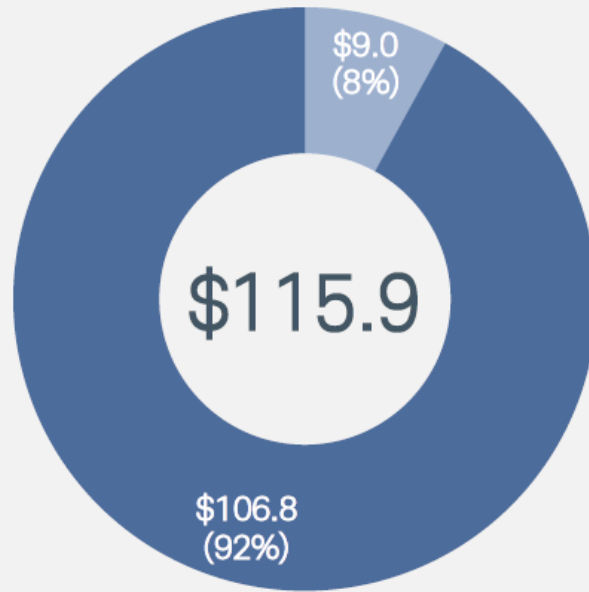
We are prioritizing flexibility and liquidity to efficiently accommodate client cash realignment trends

Note: Fwd = Forward. U.S. = United States. MBS = Mortgage-backed security. IG = Investment grade. SOFR = Secured Overnight Financing Rate. 1. Illustrative future yields based on current market expectations as of mid-April 2023. 2. Illustrative durations shown on an option-adjusted basis.

Appendix

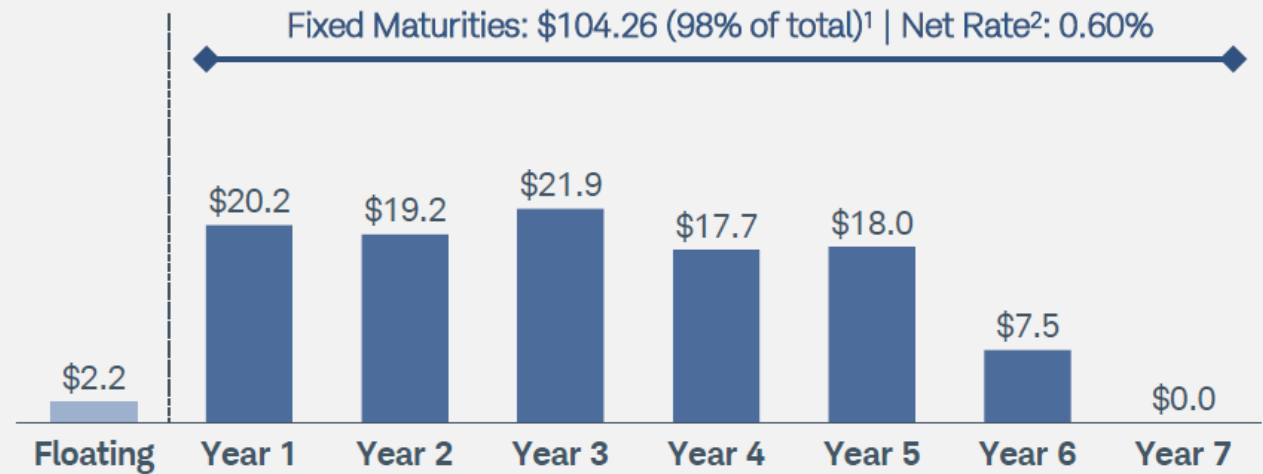
Bank Deposit Account Summary (as of March 31, 2023)

Mix of Average BDA Balances (\$B,%)¹



BDA Balances by Maturity, EOP (\$B)

Total Balance: \$106.5B	Net Rate ² : 0.68%	Annual Revenue ³ : \$731.2M
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	Net Rate	1Q23 Revenue ⁴
Floating	3.92%	\$89M
Fixed	0.59%	\$158M

	Floating	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Net Rate ²	4.28%	1.41%	1.26%	-0.21%	-0.19%	0.25%	1.78%	0.00%
Annual Revenue ³	\$96M	\$288M	\$246M	(\$46M)	(\$33M)	\$46M	\$134M	\$0M

Note: Certain totals may not sum due to rounding. M = Millions. B = Billions. Q = Quarter. BDA = Bank Deposit Account. EOP = End-of-period. Net yields calculated on an actual/360 basis. 1. Balances maturing by remaining duration term (e.g., Year 1 maturities are balances rolling off the fixed-rate ladder over the next 12 months). 2. EOP net rate of maturities as of March 31, 2023; includes all related fees and client pay rates as of March 31, 2023. 3. Revenue figures presented on an annualized run-rate basis per the amended Insured Deposit Agreement (IDA) arrangement. 4. Excludes impact of one-time \$97 million breakage fee.

“Maintaining the capital and liquidity required to support Schwab’s long-term growth remains our primary balance sheet objective.

We **increased our quarterly common dividend by 14%** to \$.25 per share and returned capital via common and preferred stock repurchases. Even with the accelerated capital return during the first two months of the quarter, our Tier 1 Leverage Ratio finished at 7.1%. In light of recent events within the U.S. banking sector, and the resulting regulatory uncertainty, **we have decided to pause our active buyback program.** That being said, opportunistic capital return is still an important component of our ‘through the cycle’ financial formula.

Ultimately, we believe the current headwinds will prove transitory and we remain well positioned to deliver long-term value to our stockholders.”

-CFO Peter Crawford

Recent Insider Transactions

INSIDER	Last Name	First Name	RELATION	LAST DATE	TRANSACTION	OWNER TYPE	SHARES TRADED	PRICE	VALUE TRADED	SHARES HELD	VALUE HELD
Profile	Brown	Marianne	Director	3/28/2023	Buy	Direct	5,000	\$53.47	\$267,350.00	9,984	\$533,844.48
Profile	Wurster	Richard	President, Charles Schwab Corporation	3/17/2023	Buy	Direct	2,000	\$54.39	\$108,780.00	101,391	\$5,514,656.49
Profile	Wurster	Richard	President, Charles Schwab Corporation	3/14/2023	Buy	Direct	5,000	\$57.28	\$286,400.00	99,391	\$5,693,116.48
Profile	Bettinger	Walter	Chairman and CEO	3/14/2023	Buy	Direct	50,000	\$59.31	\$2,965,500.00	656,501	\$38,937,074.31
Profile	Adams	John	Director	3/14/2023	Buy	Direct	5,000	\$59.31	\$296,550.00	41,955	\$2,488,351.05
Profile	Ricketts	Todd	Director	3/14/2023	Buy	Direct	10,000	\$56.79	\$567,900.00	230,892	\$13,112,356.68
									\$4,492,480.00		\$66,279,399.49

THE CHARLES SCHWAB CORPORATION
Net Interest Revenue Information
(In millions, except ratios or as noted)
(Unaudited)

	Three Months Ended March 31,					
	2023			2022		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets						
Cash and cash equivalents	\$ 37,056	\$ 413	4.46%	\$ 72,465	\$ 34	0.19%
Cash and investments segregated	40,068	432	4.31%	51,913	15	0.11%
Receivables from brokerage clients	60,543	1,084	7.16%	84,204	626	2.97%
Available for sale securities ^(1,2)	155,791	825	2.12%	284,526	947	1.33%
Held to maturity securities	170,889	746	1.75%	103,416	378	1.46%
Bank loans	40,248	391	3.92%	35,852	187	2.10%
Total interest-earning assets	504,595	3,891	3.09%	632,376	2,187	1.38%
Securities lending revenue		112			129	
Other interest revenue		13			3	
Total interest-earning assets	\$ 504,595	\$ 4,016	3.19%	\$ 632,376	\$ 2,319	1.47%
Funding sources						
Bank deposits	\$ 343,105	\$ 618	0.73%	\$ 452,692	\$ 16	0.01%
Payables to brokerage clients	77,169	75	0.39%	105,929	2	0.01%
Other short-term borrowings ⁽³⁾	6,917	86	5.05%	4,717	4	0.33%
Federal Home Loan Bank borrowings ^(3,4)	24,458	304	5.05%	—	—	—
Long-term debt	20,290	139	2.74%	19,864	108	2.18%
Total interest-bearing liabilities	471,939	1,222	1.05%	583,202	130	0.09%
Non-interest-bearing funding sources	32,656			49,174		
Securities lending expense		22			7	
Other interest expense		2			(1)	
Total funding sources	\$ 504,595	\$ 1,246	1.00%	\$ 632,376	\$ 136	0.09%
Net interest revenue		\$ 2,770	2.19%		\$ 2,183	1.38%

⁽¹⁾ Amounts have been calculated based on amortized cost.

⁽²⁾ Beginning in the first quarter of 2023, amounts include the impact of derivative financial instruments and the related hedge accounting on our available for sale securities.

⁽³⁾ Beginning in the first quarter of 2023, Federal Home Loan Bank borrowings are presented separately from other short-term borrowings. Prior period amounts have been reclassified to reflect this change.

⁽⁴⁾ Average balance and interest expense was less than \$500 thousand in the prior period.

Schwab is **not** a “large bank.” It *barely* loans money to “bank” clients compared to the rest of the numbers on its balance sheet.

Schwab has gone from earning 1.47% on its assets in Q1 2022, to earning 3.19% on its assets in Q1 2023.

Meanwhile their costs (the interest they are paying to people who gave them the assets went from 0.09% in Q1 2022, to 1.00% in Q1 2023.

This leads to a net improvement, from net interest margin of 1.38% in 2022 to 2.18% in 2023.