CFO Commentary

Periodically, Joe Martinetto, Senior Executive Vice President and Chief Financial Officer, will provide insight and commentary regarding Schwab's financial picture. For any questions, please contact Investor Relations at investor.relations@schwab.com or call Richard G. Fowler, Senior Vice President of Investor Relations, at (415) 667-1841.

This commentary speaks only as of the date specified below. The company makes no commitment to update any of this information.

February 28, 2017

Today we announced another reduction in our online equity, ETF, and option trade commission rates, following moves we announced just a few weeks ago on February 2nd. With this second action coming right on the heels of the first, I thought it might be useful to share some context regarding how they both fit within our financial planning for 2017.

Those of you familiar with the Business Update we held on February 2nd know that we shared a baseline financial scenario for the year that included low double digit revenue growth, a revenue/expense growth gap of 200-300 basis points, and a pre-tax profit margin of at least 41%. That scenario was based on assumptions including 6.5% appreciation in the S&P 500, flat client trading volume relative to 2016, and no further Fed rate hikes. It also included the effect of the pricing moves we announced that day. We then shared our expectations regarding the allocation of potential incremental revenue coming from any further rate hikes: a more balanced allocation between stockholder returns and reinvesting in the business or pricing for the first hike, followed by allowing a substantially larger portion of subsequent rate impacts to fall to the bottom line.

Presenting our scenario in this manner enabled us to provide a picture of our expectations if no further Fed action materializes this year. At the same time, it also enabled us to avoid providing competitors with specifics around the additional pricing moves we're allowing for in our 2017 planning while still providing an accurate overall picture of our approach.

Now that today's news regarding some of those additional pricing moves is out, I wanted to share the scenario as we've been using it internally - in essence, our Plan for the year – which we'll work from going forward. It uses the same assumptions for equity market returns and client trading activity, but allows for a Fed rate hike at mid-year. It also includes pricing moves akin to today's announcement along with some incremental reinvestment in the business. Under those circumstances, we'd expect to produce results at the stronger end of the revenue growth and profitability expectations I mentioned above (remember we're assuming just one hike, in June). Importantly, our basic guidance about using the benefits of incremental rate hikes remains in effect – we've simply invested in our clients ahead of that next Fed move.

Of course, to the extent the year unfolds differently or the environment turns against any further rate hikes, we'll retain the flexibility to adjust our spending as we always do when necessary, balancing our investments to drive long-term growth with strong near-term profitability.

Let me close by reiterating the thoughts I shared at the end of the Business Update: Please don't miss the bigger picture here. This is a company that is performing extraordinarily well. We are engaged in a growth strategy, working to drive client acquisition that drives scale, which allows us to continue to make the investments that drive more growth and more scale, all in the service of building value for both clients and stockholders. Today's moves should be viewed in the context of that long-term focus on driving profitable growth. Commission pricing should never be an obstacle for any individual trying to determine whether to come to Schwab for their investing needs.

Forward-Looking Statements

This commentary contains forward-looking statements relating to the company's baseline financial scenario and assumptions; pricing moves and their effect; the allocation of potential incremental revenue from rate hikes; allocation between stockholder returns and reinvesting in the business or pricing; investing in clients; flexibility to adjust spending; balancing near-term profitability with long-term growth; making investments that drive client acquisition, growth and scale and build value for clients and stockholders; profitable growth; and trading commission costs as a barrier for investors. Achievement of these expectations and objectives is subject to risks and uncertainties that could cause actual results to differ materially from the expressed expectations.

Important factors that may cause such differences include, but are not limited to, general market conditions, including the level of interest rates, equity valuations and trading activity; the company's ability to attract and retain clients and grow those relationships and client assets; competitive pressure on rates and fees; 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 company's ability to manage expenses; regulatory guidance; client sensitivity to interest rates; trading activity; the effect of adverse developments in litigation or regulatory matters and the extent of any charges associated with legal matters; any adverse impact of financial reform legislation and related regulations; and other factors set forth in the company's most recent report on Form 10-K.